SOVIET FINANCIAL SYSTEM

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This book was written by a group of authors at the Moscow Financial Institute, directed by Professor D. A. Allakhverdyan. The basic questions of the theory of finance are examined in close association with practical experience in building communism and with the objectives of the economic policy of the Soviet state. An analysis is given of the essence and functions of Soviet finance and of the system of financial administration and its organisation.

The subjects discussed by the authors include the Soviet budgetary system and methods of budgetary planning, state revenue and expenditure, state loans and state insurance, the finance of socialist enterprises and of branches of the economy, and state financial control.

In giving an account of the nature and functioning of these economic categories and financial institutions in the conditions of a socialist economy, the authors also show their difference in principle from categories of the same name in the capitalist economic system.

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INTRODUCTION

The science of finance studies the economic relations which rise in various kinds of society when the state creates, distributes and utilises monetary funds.

The essence of finance, its function and purpose, may be nalysed historically on the basis of the laws of the economic evelopment of society and of the functions fulfilled by the tate within a particular social order.

Finance is an economic category—a concept which expresses ieoretically real economic relations which are grounded in particular mode of social production. For this reason, the ssence and functions of finance may be analysed and correctly nderstood if one takes as a starting-point the nature of the conomic structure of a society and its inherent objective aws of development.

Marxist-Leninist political economy proceeds from the fact iat a particular mode of social production lies at the basis f any economic category. Consequently, the essence and urpose of finance differ in various kinds of society insofar s there are differences between the inherent relations of roduction and laws of development of the societies. In the lave-owning and feudal orders of society finance was, and ı the capitalist states is, an instrument for the additional xploitation of man by man. Its role is to assist the enrich-

ment of the ruling classes at the expense of the exploited majority.

Radical changes in the mode of social production and in the principles of distribution of the national income, resulting from the socialist revolution in the U.S.S.R. and in the People's Democracies, have led to changes in the essence and purpose of finance. In the period of the dictatorship of the proletariat and of socialist construction, finance, for the first time in the history of man, has come to be used against the capitalist elements with the aim of restricting them and squeezing them out and of putting an end to the exploitation of man by man. Thus, a historically new type of finance arose–socialist finance, which was transformed from an instrument for the additional exploitation of the people into an instrument for the construction of socialism and communism and for raising the well-being of the people. This means that fiscal science in not abstract, it reflects the interests of a particular class, and is consequently a class and party science.

Marxist-Leninist teaching on socialist finance is being creatively developed in the decisions of the Communist Party of the Soviet Union and of the fraternal Communist and Workers' Parties of the countries of the world system of socialism. The Twenty-Second Congress of the C.P.S.U. (1961) and the adoption of the new Programme of the Communist Party of the Soviet Union are an important stage in the development of Marxist-Leninist economic theory, including the theory of finance. The progressive experience of the U.S.S.R. and of all socialist countries in the organisation of financial practice is, when generalised, of great importance for the development of the theory of socialist finance.

Socialist finance, as a value category, resulting from the existence of commodity-money relations, is one form of the movement of value in the process of extended socialist reproduction.

In the transition period from capitalism to socialism and in a socialist society itself, socialist economy may be organised and the demands of the state for essential resources may be satisfied with the help of a complex system of monetary relations, in which money incomes and accumulations (or savings) are created, distributed and utilised on the basis of planned distribution and redistribution of the aggregate social product and the national income. This has been proved theoretically, and the experience of socialist construction in the U.S.S.R. has confirmed it in practice.

Basing himself upon the doctrine of Marx and Engels about the new nature of finance under the conditions of the dictatorship of the proletariat, V. I. Lenin scientifically proved the necessity of using finance as an instrument of socialist construction; worked out the basic principles for organising the Soviet financial system; showed the internal connections between finance and the economy, revealed the difference in principle of the Soviet socialist financial system from those of capitalist states, and made a profound analysis of the unity of financial and economic policy and of the dependence of finance upon the laws governing the economic development of society.

The financial activity of the socialist state is an important side of its economic and organisational activity. It is integrally connected with the planning of the national economy, and with the distribution, redistribution and utilisation of the national income.

With the emergence and development of the socialist mode of production, new economic laws began to operate. In conformity with the requirements of these laws and with the tasks of building socialism, the socialist state makes use of finance as one of the most important instruments in carrying out its functions.

The analysis of socialist finance is a component part of the political economy of socialism. It examines a particular sys-

tem of monetary relations. The political economy of socialism provides the science of finance with the basic principles of methodology for a scientific analysis of the laws of development of financial relations and for a study of the essence and purpose of financial categories.

At the same time, fiscal science is not just a restatement of political economy. It studies only one aspect of relations of production in socialist society and reveals a specific manifestation of the economic laws of socialism in the process of creating, distributing and using monetary resources.

Soviet financial science is a component part of a single science of socialist finance. It originated from a scientific generalisation of the practice of financial relations in the U.S.S.R., where for the first time in history a socialist society was built, and it was developed further on the basis of experience in organising financial relations in all countries of the world socialist system.

Soviet financial science studies the system of economic money relations, organised and planned by the Soviet state with the purpose of providing financial resources for the process of extended socialist reproduction and for the satisfaction of other requirements of the state.

Soviet Financial System covers economic relations connected with the movement, formation and distribution of monetary resources. It explains the scientific principles of the financial policy of the Communist Party and the Soviet state at each stage in the building of socialism and communism, and shows the way in which the Communist Party and the Soviet state, in accordance with the needs of economic development, make use of finance for the successful construction of communist society.

The general theoretical foundation of Soviet financial science is Marxist-Leninist doctrine concerning (1) extended socialist reproduction and (2) the socialist state. This is for two reasons. First, Soviet finance as an economic category

of socialism is controlled by the laws of socialist social reproduction, at the basis of which lies material production. Second, finance cannot function of its own accord, automatically, but must be used by the socialist state in the course of its economic activity as an instrument for putting the financial policy of the Communist Party into practice.

On the basis of economic laws which have been discovered and then consciously applied, the socialist state organises the whole process of social reproduction by means of a unified plan. In its activity in the field of financial organisation the state bases itself on the laws of social reproduction.

Soviet finance is studied on the basis of the national economic indices of the development of the country; these show the economic processes and phenomena which are regular features of the socialist economic system. In addition to this, *Soviet Financial System* shows how contradictions characteristic of the emergence and development of socialist economy find their expression in financial relationships, and how finance assists in resolving these contradictions.

The objective of financial science, as a component part of political economy, is to reveal the profound processes which express the essence of financial relations. This is done by theoretical analysis, using the method of abstraction.

Soviet Financial System is a theoretical course, but at the same time it is of direct practical importance. Questions of financial theory are studied in this course in close connection with the practical experience of communist construction, the economic policy and objectives of the Soviet state, and the concrete demands made upon the financial system.

All this determines the content of *Soviet Financial System*, which is divided into seven parts.

In *Part One* the basic theoretical problems of the course are discussed. An analysis is given of the essence and functions of Soviet finance and of its role and purpose in social reproduction and in the process of fulfilment by the Soviet

socialist state of its functions at home and abroad. It concludes with an analysis of the financial system and of the system of financial administration and of its organisation.

Part Two gives an account of the history of the development of Soviet socialist finance.

Part Three is devoted to the finance of socialist enterprises and of branches of the economy.

Part Four describes the system of state revenue in the U.S.S.R.

Part Five considers state expenditure.

Part Six is concerned with state credit and state insurance.

Part Seven explains the structure and function of the State Budget and also deals with the Soviet budgetary system, methods of budgetary planning and questions of state financial control.

PART ONE

ESSENCE, FUNCTIONS AND ROLE OF SOCIALIST FINANCE

Chapter 1

SOCIALIST FINANCE, ITS NATURE AND FUNCTIONS

What Socialist Finance Is; Why It Exists

Socialist finance is a system of economic relations by means of which funds of monetary resources are created on the basis of planned distribution and redistribution of the aggregate social product and national income in monetary form. These funds are used for the needs of extended reproduction and for meeting other needs of the state as a whole. Finance is an objectively necessary economic category and constitutes an element of the socialist economy. Therefore, finance is a part of the socialist basis of society.

The necessity of making use of finance in a socialist society arises from the existence of commodity production.

In a socialist society, while labour has not yet become a prime necessity of life for all members of society, the material interest of both those engaged in production and the enterprises themselves in the result of their work is a most important driving force. This interest may be created on the basis of the socialist principle of payment according to work done. Hence it is necessary to have a form of economic interconnection between the state and its enterprises, between the enterprises themselves, and between the enterprises and their employees, which is based on the principle of equivalent exchange underlying a commodity economy, and on the principle of material interest. This is achieved in practice

through a method of planned economic management known as cost accounting. Cost accounting in socialist enterprises consists in comparing in value (money) terms the expenditure of the production and the results of its economic activities. In appraising these results quantitative and qualitative indices are taken into account. The comparison takes the form of the income and expenditure account (financial plan) of the enterprise.

Commodity production and the value relations connected with it are not an outcome of the socialist mode of production as such. "The production and circulation of commodities," wrote Marx, "are, however, phenomena that occur to a greater or less extent in the most diverse."*

The socialist revolution and the socialist relations of production which arise from it do not abolish the existing commodity-money relations and the resulting financial relations, but radically change their economic content and their role in social reproduction.

In socialist society we are concerned with commodity production of a particular type, based upon common ownership. A special type of commodity production exists and develops at all stages of socialist construction–in the transition period from capitalism to socialism, in socialist society itself and in the present period of full-scale construction of a communist society. Financial relations in the national economy develop in conformity with this. As stated in the Programme of the C.P.S.U., "It is necessary in communist construction to make full use of commodity-money relations, in keeping with their new content in the socialist period."

Finance has always been directly influenced by commodity-money relations and by the objective necessity of utilising value and its forms in the process of distributing and redistributing the social product and national income. Value is an attribute only of commodity production and is the objective foundation of such economic categories as price, profit, finance and credit. So long as money and other forms of value exist, the planned organisation of production and distribution of the social product cannot be carried out without finance. With the existence of commodity-money relations the process of social reproduction in all its stages–production,

* Karl Marx, *Capital*, Vol. I, p. 114.

distribution, exchange and consumption–is carried on through the medium of a continuous circulation of monetary resources, and this is a necessary condition for extended socialist reproduction.

In a socialist society, the movement of the social product at all stages of production is carried on through the medium of a continuous circulation of monetary resources, and this makes the organisation of the process of social reproduction impossible without the use of finance. In connection with this, all national-economic interconnections which originate in the process of extended reproduction occur in the form of monetary relationships and accounts.

Consequently, the process of planned formation and utilisation of money income and accumulation forms the financial side of the economic activity of socialist enterprises and organisations.

The Programme of the C.P.S.U. stresses that "it is necessary in communist construction to make full use of commodity-money relations in keeping with their new content in the socialist period. In this, such instruments of economic development as cost accounting, money, price, production cost, profit, trade, credit, and finance play a big part."*

Commodity-money relations and the financial relations resulting from them are a necessary element in the socialist economy, and reflect one aspect of the relations of production. The specific nature of financial relations is that they are integrally connected with the functioning of money and therefore work as a system of monetary relations. However, finance does not embrace all monetary relations; monetary relations is a broader concept than financial relations. This means that not all kinds of monetary relations can be considered as financial relations.

Finance expresses monetary relations which are produced by the formation, distribution and use of monetary incomes and accumulation.

Socialist production is the material basis of socialist finance. Its primary unit is the enterprise. The financial system of socialist enterprises and branches of the economy reflects economic relations on the basis of which, by means of the distribution of money incomes and accumulation, funds of

* *The Road to Communism*, p. 536.

monetary resources are formed which are necessary for the economic activity of the enterprises themselves and for the creation of a fund for the state as a whole. The financial system of enterprises and branches of the economy provides monetary resources for the circulation of funds in the economy, and serves the process of extended socialist reproduction.

Since socialist enterprises are working on a cost-accounting basis, there is a direct connection between the quantitative and qualitative indices of the economic activity of socialist enterprises and their financial condition.

Socialist enterprises and economic organisations cover their expenditure from their own income and make a profit from their work by bringing in untapped resources and increasing the amount they accumulate; this is the basis for their financial stability.

In the collective farms, monetary relations are also built on the principles of cost accounting and are directly linked with the receipt of money from the sale of agricultural production of the farm, and with such expenditure as taxes and insurance payments, outlays on production needs, money set aside for capital investment and repair, and payment of money incomes and advances to collective farmers.

Beside their own resources, collective farms also make use of state financial resources for the formation of fixed and current assets; these state resources are provided in the form of long-term loans for capital investment or short-term loans for current production needs. For example, the seasonal demand of collective farms for additional working capital, arising at certain periods of the year, is met with the help of state short-term credits, for strictly defined purposes (such as the purchase of seed, fodder, fuel and lubricating materials). Financial relations of collective farms with the state also arise when advances are given by the state purchasing organisations on contracts for the purchase of agricultural products, and also when income tax, insurance premiums, etc., are paid.

In their economic nature, the financial arrangements of state enterprises and of co-operative and collective-farm enterprises are of the same type. They have the same economic basis–socialist ownership of the means of production–and they are used in the interests of extended socialist reproduc-

tion, and for satisfying the growing needs of the people and of the state as a whole. The difference between the finances of state enterprises on the one hand and of co-operatives and collective farms on the other arises from the special features of each of the two forms of socialist ownership. This can be seen in particular in the different forms of credit and financing, and in the methods used for selling the finished products and distributing net income.

In the period of full-scale building of communism, as collective-farm and co-operative ownership draws nearer to public ownership, finance, as an element in the economy of collective farms, will increasingly approximate in character, purpose and principles of organisation and planning to the finance of state enterprises and organisations.

Finance in socialist enterprises and branches of the economy is indissolubly connected with the State Budget. In order to create funds of monetary resources to be used in a centralised manner for general state purposes, enterprises contribute part of their monetary resources to the funds of the state. The volume of financial resources concentrated in the hands of the socialist state must in the first place be sufficient to meet the monetary needs of material production. Without this, appropriate proportions cannot be maintained either in the national economy, or between the accumulation fund and the consumption fund in the national income.

Soviet state finance in its turn actively influences material production by state financing of socialist enterprises, organisations and branches of the economy; by financial planning and the exercise of state financial control over their economic activity.

The content of Soviet finance is shown in its functions.

Functions of Socialist Finance

Finance in the U.S.S.R. fulfils two basic functions: distribution and control.

The *distributive function* of finance makes it possible to utilise the objective possibility of forming and distributing financial resources in the interests of communist construction.

The basic purpose of socialist finance–that of meeting, through financial resources, the needs of extended socialist reproduction–is implemented through the distributive function of socialist finance. Distribution is the connecting link between production and consumption. Before the aggregate social product and the national income enter into productive or non-productive consumption, they must be distributed between enterprises, institutions and branches of the economy, and between the members of society. The movement of the social product takes place through the formation, distribution and use of money incomes and accumulations. The distribution and redistribution of money incomes and accumulations, which are carried through with the help of finance, forms the final, actually utilised funds of accumulation and consumption.

The distributive function of finance is used by the Soviet state to form centralised (state) and decentralised funds of monetary resources. The formation of decentralised funds of monetary resources enables the state directly to contribute monetary resources for the circulation of funds in enterprises and branches of the economy in accordance with their planned needs.

The centralised fund of financial resources, concentrated in the hands of the state, is used to finance measures of national importance.

Karl Marx, in the *Critique of the Gotha Programme*, set out the general scheme of distribution of the social product under socialism. Marx showed that under socialism the whole of the aggregate social product would belong to the working people. But this does not mean that the whole of the social product must be a fund for personal consumption for in this case not only extended reproduction, but even simple reproduction would be impossible.

Marx considered that in a socialist society, before the question of distributing the national income to individuals arises, funds necessary for securing material production must be formed. Such funds should include: a fund for the replacement of means of production used up in the production process; a fund for the expansion of production; and reserve and insurance funds. The formation of these funds arises from the needs of material production itself; without them,

the productive forces of socialist society cannot be developed, extended reproduction cannot be achieved.

From the remaining part of the social product it is necessary to deduct:

First, those general administrative expenses not related to production. Marx also noted that this item would immediately be significantly reduced in comparison with its importance in capitalist society–and would go on decreasing with the development of socialist society.

Second, the part set aside for the satisfaction of social requirements: schools, public health institutions and so on. This item, as Marx showed, increases in comparison with what it is in capitalist society, and grows increasingly as socialist society develops.

Third, funds for the disabled, and so on.

All the remaining part of the social product is earmarked for distribution among the members of socialist society in accordance with the quantity and quality of the labour expended by them.

Marx's scheme is applied in the U.S.S.R. and in other socialist countries with the amendment, however, that a fund for the defence of the country is created out of the national income, and that the aggregate social product is in the main distributed and redistributed in monetary form with the help of finance. Marx's scheme serves as a methodological basis for planning financial resources for the needs of extended socialist reproduction, and also for forming social funds for consumption.

Under socialism, the national income belongs to the working people and is really the income of the whole nation. Owing to the elimination of private ownership of the means of production and to the abolition of exploitation of man by man, there is no private appropriation or parasitic consumption of the national income in socialist society.

The national income of socialist society is divided into two parts: the necessary product and the surplus product. The necessary product is distributed among the workers in material production according to work done, i.e., it is used as a fund for personal consumption. The surplus product is that part of the national income which forms the net income of socialist society and is used for expanding production and

for the requirements of the non-productive sphere (education, public health, administration, national defence, etc.).

To obtain their allotted means of production and consumer goods, enterprises, economic organisations and institutions must have the necessary money incomes, the receipt of which is planned in advance. As for the working people, the quantity of consumer goods, and therefore the extent to which their material and spiritual needs are satisfied, depend upon the quantity and quality of their work, which determines the personal income of the individual under socialism. Personal income is spent through retail trade, which handles that part of consumer goods, including consumer durables, which is made available for purchase by the population.

The formation of funds for replacing material outlays and for expanding production (the accumulation fund), and the creation of reserves for satisfying the personal and social demands of the people, also enter into the system of financial relations. Under socialism, in conditions of commodity production, the distribution of material goods is thus carried out through the distribution of money.

The distribution of the national income in a socialist society results basically from the manner in which monetary incomes and accumulation are formed; this requires in its turn that finance be used for securing the final proportions between the accumulation fund and the consumption fund.

As a result of the sale of their output enterprises receive money incomes, and these are then directed to the planned replacement of material outlays (the fund for replacing production expenditure), to payment of wages and to the social insurance fund. Part of the net income goes to the centralised fund of the state (the budget), and the remaining part is used by the enterprises in accordance with their production and financial plan.

In collective farms the national income created is divided into the incomes of the collective farms themselves and the personal incomes of collective farmers, which they receive in kind and in money.

Part of the national income appears in the form of incomes of collective farmers from personal plots, incomes of individual peasants, who are not members of collective farms, from their privately-owned farms, incomes of factory and office workers and handicraftsmen who own productive

livestock personally, or make use of kitchen gardens and orchards.

As a result of the distribution of the national income, the following basic kinds of income are formed: (1) centralised net income; (2) the fund for state social insurance; (3) net income of state enterprises; (4) net income of collective farms; (5) net income of co-operative enterprises; (6) wages of factory and office workers in state enterprises; (7) incomes of collective farmers in money and in kind; (8) incomes of individual peasants, handicraftsmen and artisans, and incomes of factory and office workers who have personal plots of land. The sum of these incomes forms the total volume of national income in the U.S.S.R.

However, the process of distributing the national income does not end here. The financial system is used also to redistribute the national income. Redistribution is understood as the secondary distribution of part of the already distributed national income, which results in the formation of derivative (secondary) incomes.

Under socialism, redistribution of the national income pursues the following aims:

(1) to provide the necessary monetary resources for the services sector, which does not create national income. The services sector includes general administration and defence, financial and credit institutions, scientific institutions not directly linked with production, and various kinds of services (passenger transport and means of communication when they are serving the general public or non-productive institutions, housing municipal utilities, education, theatres, museums, public health institutions, etc.);

(2) to obtain part of the money incomes of collective-farm and co-operative enterprises and of the population for satisfying state and other social needs;

(3) to ensure, on the basis of interbranch and territorial transfer of resources, a more rational distribution of the incomes and accumulation of socialist enterprises and organisations and the observation of correct national economic proportions in the use of material, labour and money resources.

Primary distribution of incomes and their redistribution are the two stages in the process of distribution. Distribution involves the whole national income, but redistribution involves only a certain part of the national income.

In its economic content, the process of redistributing the national income within the state productive sector differs from redistributive relations between the two productive sectors (state, and co-operative and collective farm) and between the state sector and the individual citizen.

In the first case, redistribution of national income does not go beyond state property and therefore the owner of the distributed resources does not change. In the second case, a change occurs in the ownership: when payments are made by collective-farm and co-operative enterprises and by individuals to the state, the latter becomes the owner of additional resources. In this way, collective and personal forms of ownership are transformed into national ownership. There is also an opposite process—the conversion of state property into collective and personal property (the wages of people working in the services sector, pensions, students' grants, loans to collective farms, co-operatives and municipal enterprises, and loans to the rural population and to persons moving to new places for private house building).

Redistribution of the national income takes place in the main through three channels: first, through the financial and credit system and, above all, through the State Budget; second, through the mechanism of price-planning; and third, through direct payment by the population for the services of cultural institutions and municipal facilities.

State centralised finance is of great importance in the distribution of the social product and national income; it serves to concentrate, according to plan, monetary funds in the hands of the state.

As the socialist state is the owner of the main part of the means of production, its financial activity is supported by the primary distribution of the national income. This process brings into first place the creation of the financial conditions for extended reproduction in the state sector and the financial support of extended reproduction in the collective-farm and co-operative sector of the economy. This means that the finances of the socialist state reflect the distributive relationships in the economic basis itself.

The control function finds expression in the socialist state's use of finance as an instrument of control over the financial and economic activity of enterprises. This function is part of the very essence of socialist finance, and consists in the

planned distribution of finances, the possibility of which arises from the fact that the economy is state controlled. Financial control under socialism is integrally interconnected with accounting in value terms inasmuch as finance in its controlling function serves as an instrument for accounting and checking on the correct distribution of material and money resources and their rational use.

The objective necessity to keep account of and control the amount of labour and the amount of consumption in a socialist society arises from the public ownership of the means of production and from the action of the law of planned, balanced development of the economy. It is impossible to manage the social economy without a plan, and planning is impossible without accounting and control. Thus, accounting and control under socialism are two aspects of economic activity.

Lenin wrote that "accounting and control–that is *mainly* what is needed for the 'smooth working', for the proper functioning, of the *first phase* of communist society".*

The Soviet state carries out financial control in the process of providing finance and credit for the economy. The possibility of such control arises from the fact that the state is the owner of the economy and organises it in a planned way in the process of fulfilling its function of economic organiser. This function of the socialist state is manifested, in particular, in the activity of finance and credit organs which exercise daily financial control over the production and financial activity of enterprises and organisations. The State Budget and the credit plan play a special role in this connection. All-round daily financial control is exercised when the State Budget and credit plan are compiled and implemented.

The content of financial control is brought out when finance is used as an instrument for actively influencing the fulfilment of production and sales plans.

Financial control or control by the ruble is exercised in the course of checking on the observance of the cost reduction plan, the standard proportions of working capital owned by the enterprise and borrowed, the wage fund, etc. This allows the state to use finance, or rather the controlling function of finance, to bring to light and mobilise untapped

* Lenin, *Collected Works*, Vol. 25, p. 473.

resources in the economy, in the struggle for economical expenditure of labour, money and materials.

The material basis of financial control is the circulation of funds and the change in the forms of value: resources periodically take on monetary form and are converted into money incomes and accumulation.

Financial control over the activity of socialist enterprises and institutions is exercised in three directions: (1) within enterprises and in the interrelations between them which arise from cost accounting; (2) through state finance, in the course of compiling and carrying out the State Budget; (3) through the system of credit and settlement of accounts.

All these forms of financial control are interconnected and have a common basis and a unified purpose. But each of these forms also has its special features which are determined by the sphere in which it works and by the resulting objectives.

Financial control extends both to distribution, redistribution and utilisation of material and monetary resources, and to the process of the formation of these resources, i.e., it covers all aspects of the economic activity of socialist enterprises and organisations. Thus, finance carries out its control function at all stages of socialist extended reproduction—production, distribution, exchange and consumption.

Financial control over the economic activity of enterprises and organisations is governed by the necessity of comparing production outlays with production results through the medium of money, through accounting in value terms. The best results are obtained on the basis of cost accounting, which sets the expenditures of enterprises in direct dependence on their incomes.

Within enterprises financial control is exercised through the system of cost accounting, through financial planning and control by the ruble, through the use of the principle of material incentives and rewards for efficient enterprises and through application of financial and credit sanctions on inefficient enterprises.

With the help of financial control economic accounting is improved, hidden reserves are brought to light and enterprises are made more profitable. Careful control by financial organs of the progress of the production and financial plans of enterprises and organisations in all their aspects (cost,

sale of output, accumulation, etc.) ensures strict observance of plans.

In the process of distributing and spending resources financial control is exercised when monetary resources are allotted to enterprises, profit is distributed, the wage fund is spent and various kinds of incentive funds are established and spent.

The Soviet state makes use of the financial system of enterprises and branches of the economy and general state finance in order to meet the requirements of the law of distribution according to work done and of the law of a continuous rise in the productivity of labour. With the help of finance, the state supervises the amount of work done and the amount of resources consumed, and checks that the personal share of the national income received by working people accords with the quantity and quality of the work they have done.

In compiling and implementing the State Budget, financial control is exercised to see that enterprises and branches of the economy fulfil their financial responsibilities towards the state, and that their appropriations from the State Budget are correctly utilised.

Like cost-accounting enterprises, budget-financed institutions are also subject to financial control; budget-financed institutions include education, public health, science, the arts, administration and defence.

In the process of forming and utilising the state fund of financial resources, the state also influences collective-farm and co-operative enterprises: it accumulates part of the net income of these enterprises in the State Budget, and renders them financial support in the form of loans, compensation for losses from the insurance fund, etc.

One form of financial control is bank control which is exercised through three channels–(a) capital investment grants and loans, (b) short-term credits, and (c) the clearing of accounts.

Finance is used to control the implementation of the production plan in both physical and monetary terms. This is necessary in order to ensure that movements of money and material resources are in proportion to each other. On the national scale, this means that the State Budget conforms completely to the targets of the state plan of national economic development (the national economic plan).

There is an unbreakable connection between the distributive and control functions of socialist finance. This is shown by the fact that both these functions operate simultaneously; they are both utilised by the state with the same objective—the achievement of maximum efficiency at minimum outlay.

Financial control is nothing other than control by the ruble over the formation, distribution and use of funds of financial resources. This means that the functions of finance exist and are used not separately but as a unity, i.e., simultaneously. The control and distributive functions of socialist finance are two sides of a unified system of financial relations.

In the period of the full-scale construction of communism the importance of the control function of finance will increase even more. This is associated with the further development and strengthening of commodity-money relations in the Soviet economy and with an enormous increase in the volume of production and distribution of the social product and national income.

In the next twenty years the annual national income of the U.S.S.R. will increase by approximately 400 per cent in comparison with 1960 and will reach 720,000-750,000 million rubles by 1980. There will therefore be a large corresponding increase in financial resources, used through the State Budget and the credit system to expand the fixed and current assets in the economy and to create social consumption funds. In view of this it will become even more important to ensure systematic and effective financial control over the formation and utilisation of centralised and decentralised funds of financial resources.

Soviet state financial control is organically associated with control by the public which makes it possible to expand financial control while simultaneously reducing the number of paid personnel in the control and auditing organisations.

Role of Finance in Socialist Reproduction

The functions of socialist finance predetermine and explain its role in the process of social reproduction. Finance is a necessary element in social reproduction and it participates in the circulation of funds and in the change in forms of value inasmuch as it supplies monetary resources for the

process of extended reproduction. Finance also participates directly in the movement of value which has already been created, that is, it is used for the distribution of money incomes and accumulation.

In order to understand this role of socialist finance, we must study the functions of finance in a socialist society and also analyse the economic results achieved as a result of using the functions of finance to exercise an active influence over material production. In this respect, it is very important to understand how the active influence of finance over the process of social reproduction is concretely expressed, and how it is exercised in practice.

When centralised and decentralised funds of financial resources are formed and the expenditure of these funds is controlled to see that it is rational and in accordance with the plan, all this is not done for its own sake. It is a necessary condition for solving the problems of communist construction and for developing the socialist economy according to the laws of extended reproduction.

The function of socialist finance in social reproduction amounts mainly to the following:

(1) to serve material production in the process of the circulation of funds;

(2) to promote economic accounting so that the financial plan, the regime for the use of funds and financial control impel the cost accounting enterprises to use resources more efficiently, to keep to the financial arrangements of the plan, to reduce costs and to increase their internal accumulation;

(3) to assist the development of economic links between the state and the collective-farm and co-operative sectors of the socialist economy and of economic relations between town and country;

(4) to assist the maintenance of proper proportions in the movement of labour, money and material resources, both between the different branches of the economy and between the different areas;

(5) to create planned accumulation and consumption funds with the aim of financing extended socialist reproduction and satisfying the growing material and cultural needs of the people.

According to Marxism-Leninism, an indispensable condition for extended reproduction and its law is the relatively

greater growth of the production of the means of production. The aim of socialist production is the fullest satisfaction of the growing needs of the whole of society and the improvement of the material welfare of the people. This aim can be achieved only on the basis of uninterrupted development and improvement of industrial and agricultural production, making use of the achievements of advanced science and technology.

In the process of establishing the financial conditions for extended reproduction at all stages of socialist construction, the Communist Party and the Soviet state have always been guided by Lenin's instruction that it was essential to give priority to the development of heavy industry and its core, machine-building. Attaching great importance to Soviet finance in the effort to provide the necessary resources to heavy industry, Lenin demanded: "By exercising the greatest possible economy in the economic life of our state, to use every saving we make to develop our large-scale machine industry...."* The Soviet state allocates enormous material and financial resources to the development of heavy industry.

The financing of heavy industry is of paramount importance because it is inseparably linked with technical progress, with expenditure on creating and spreading the new technique, with the technical reconstruction of existing works and factories, the replacement of obsolete by new and more productive equipment, and the supply of modern machines and equipment to agriculture.

During the period of the full-scale construction of communism there will be important changes in the structure of industrial production. Priority will be given to new industries securing maximum technical progress, and the relationship between the heavy and light industries will change. Department I in industry (the production of means of production or producer goods) will increasingly work for Department II (the production of consumer goods). The rates of growth of production in the two Departments will draw closer, though the preferential development of Department I will be maintained. Thus in the years 1961-80, the average annual rates of increase in the production of the means of production in

* Lenin, *Selected Works*, Vol. 3, p. 841.

Soviet industry will be higher than the rates of increase in the production of consumer goods by approximately 20 per cent, as against 70 per cent in 1929-40. The development of all the light and food industries will accelerate, and at the same time the proportion of consumer goods in the output of heavy industry will increase.

State finance is used to provide financial resources for the needs of socialist enterprises by forming and expanding their fixed and current assets. The state funds allocated from the budget for the development of the economy are used to finance both capital investment and increases in the working capital of state enterprises and organisations (increases in working capital are associated with the expansion of production in existing enterprises and with starting up new factories and works). The budget is also used to finance operational expenses (outlays on inventions and on training of personnel), expenses on introducing new forms of production and the costs of the initial period of operation in the case of new enterprises. In individual cases, enterprises and organisations with losses allowed for in the plan receive subsidies from budgetary funds.

This system of financial relations between the state and enterprises operating on a cost-accounting basis reflects both the active role of Soviet state finance in organising the economic activity of socialist enterprises and their organic unity.

Finance in the U.S.S.R. assists the correct territorial distribution of productive forces; the aim here is to make the best possible use of natural resources and to bring industry closer both to sources of raw materials and to the consumer. This function of Soviet state finance becomes even more important in connection with the development of industry in the eastern areas of the country and the development of vast natural resources in such areas as Siberia, Kazakhstan and the Far East.

One of our objectives is to locate industry more rationally and bring the economic levels of the various areas of the country still closer together. In view of this, the part played by state finance in ensuring a more even territorial location of productive forces will increase considerably in importance during the period of the full-scale construction of communism. In practice, these objectives are attained by redistributing the

national income between the different areas and between the branches of the economy.

Centralised state finance is also an important element in the system of measures undertaken by the Party and Government in order to develop all branches of agriculture. A comprehensively developed and highly productive agriculture is a necessary condition for the building of communism. Every year the Soviet state allocates enormous sums to develop agriculture further and to improve its position in relation to machinery and supplies.

Like centralised state finance, the financial system of socialist enterprises and branches of the national economy (decentralised finance) also plays an important part in the process of extended socialist reproduction.

The financial system of enterprises and branches of the economy is an expression of the monetary relationships in the process of material production and circulation of products, and is a necessary condition of their productive activity. Enterprise finance is a necessary element in the economy of enterprises and primarily assists the expansion of production. With the aid of finance, the economic activity of enterprises is provided with monetary resources primarily from internal accumulation (savings within the enterprise). Each enterprise working on a cost-accounting basis always has at its disposal monetary resources formed in the course of the circulation of its assets in the process of social reproduction. The financial facilities available to an enterprise therefore principally depend on the quality of its productive work.

In the period of full-scale construction of communism the increase in the importance of enterprise finance in extended reproduction must mean that an increasing proportion of profit remains at the disposal of enterprises for financing capital investment; the amount of working capital and the size of the incentive funds must also increase.

Fixed productive assets in collective-farm and co-operative enterprises are also created and expanded from their own financial resources–and also to some extent from loans from state funds. Although it does not embrace the whole process of circulation of collective-farm resources, collective-farm finance also serves the aims of extended reproduction. The importance of finance in the development of collective farms

will increase as their sales and income in money and kind increase.

Both centralised and non-centralised finance will play an increasing part in the process of the formation and utilisation of social consumption funds. More goods and services are to be supplied to the public without charge at the expense of the social consumption funds, and this entails an increase in financial appropriations for personal consumption.

In centralised state finance this will take the following specific forms:

(1) all housing and municipal utilities and facilities, urban transport, tourist centres and public catering establishments will gradually be transferred to the State Budget, and the partial contribution paid by parents towards the maintenance of their children in crèches, kindergartens and boarding schools will be abolished;

(2) appropriations for education and public health will increase (extending the network of schools, hospitals and pharmacies, the free supply of medicines to the population, the full maintenance of sanatoria and rest homes at the expense of the state, etc.).

Decentralised finance (finance in enterprises and branches of the economy) will play an increasing part in forming and utilising social consumption funds, which will increase the incentive funds allocated to improve the cultural and living conditions of employees; these funds include the production development fund, the fund for social and cultural measures, and the material incentives fund.

Enterprises and institutions in the non-productive sphere, such as municipal utilities and entertainments, receive money incomes from payments by the public for their services, and usually operate on the principles of cost accounting. However, the state controls the monetary aspects of their work through the financial system.

Finance plays its part in the process of extended reproduction of specialists. It is a matter of national importance to train highly qualified specialists, equipped with knowledge and experience. Large appropriations are being made for this purpose from the State Budget.

The central state fund of monetary resources also covers expenditure on general administration: this includes the maintenance of central and local governmental bodies, state admin-

istration, justice and the procurator's offices. These outlays are falling all the time as a consequence of measures to reduce costs and improve organisation.

While pursuing a consistent policy of peace and collaboration between nations, the Soviet state recognises the risk of war, the possibility of aggression on the part of the enemies of peace. In order to strengthen the defence capacity of the country, it therefore allocates annually from state funds the resources required to maintain the Armed Forces of the U.S.S.R.

Centralised state finance is also required for establishing large monetary reserves, including insurance reserves. These are one of the most important prerequisites for developing the economy in the proper proportions without any hold-ups. With the same objectives an annual allocation from the State Budget is spent on increasing state reserves of materials.

At the present stage in the building of communism, finance is used by the Soviet state for a number of different purposes: to assemble resources in the planned quantities and at the right time; to spend these resources as planned on economic and cultural construction; to provide financial resources for the process of establishing the material and technical basis of communism; to exercise the strictest control over the economic and financial activity of enterprises and organisations and over the progress of their production and financial plans. The part played by finance in socialist reproduction will also increase in importance in view of the need to discover and use untapped resources within the economy. The part played by Soviet financial agencies in economic construction will increase accordingly. These agencies must move closer to production and serve the needs of the productive and non-productive spheres better.

Financial Policy

The financial policy of the Soviet state is one aspect of its economic policy.

The content of financial policy lies in the systematic organisation and utilisation of finance in conformity with the requirements of the economic laws of socialism and the objectives of building a communist society. Therefore, finan-

cial policy reflects the economic and organisational activity of the socialist state in the field of financial and credit relations. The specific feature of the financial policy of the socialist state is a system of economic measures in the field of organising financial relations based on the process of forming, distributing and utilising monetary incomes and accumulations, and on the whole process of financial planning.

Soviet finance is an important instrument for carrying out the economic policy and the economic measures of the Communist Party and the Soviet Government. The financial policy of the socialist state is an aspect of the application of economic policy, and as such it can be successful if it meets the urgent requirements of national economic development. Only if this is the case, can financial policy be scientifically well-grounded and achieve the goals set.

Lenin attached very great importance to the financial policy of the Party and state and pointed out that: "We must effect sound financial reforms at all costs, and we must remember that any radical reforms will be doomed to failure unless our financial policy is successful."*

The Soviet state constructs its financial policy, as it does its entire economic policy, on the basis of the economic laws of socialism, taking the specific circumstances into account. At all stages of socialist construction, the Communist Party in its financial policy is always guided by Lenin's plan for building socialism and communism, and takes into consideration at any given moment both the level of development achieved by the productive forces within the country and the international situation.

In the conditions of the mixed economy of the transition period from capitalism to socialism, the financial policy of the Soviet authorities assisted the establishment of the foundations of socialism and was directed against the capitalist elements. This was the class content of the financial policy of the Soviet state during the transition period. With the help of financial policy, the problems of centralising financial resources were solved, the principles of taxation of incomes were applied, the old currency was withdrawn and a new currency was issued, all pre-revolutionary domestic and foreign loans were annulled, and the banking system trans-

* Lenin, *Collected Works*, Vol. 27, p. 383.

formed into a unified system of national accounting and control.

At this stage, financial policy had as its aim the strengthening of the economic connections between state industry and the peasant economy on the basis of a growing trade turnover between town and country. Resting on socialist industry, the finance and credit system, state trade and co-operation, the Soviet authorities systematically restricted and squeezed out capitalist elements in town and country. On the one hand, taxation of the capitalist elements was increased and they were deprived of credit; on the other hand, the working peasantry were given tax concessions and were assisted with grants and loans. With the aid of taxes a significant part of the national income was redistributed for use by the socialist sector at the expense of capitalist elements.

During the transition period, the Communist Party and the Soviet Government, through their financial policy, strove to regulate the income and accumulation of small-scale farms in order to put a stop to their tendency to develop into capitalist farms. At the same time, financial policy endeavoured to encourage co-operation between peasant farms in every way, putting Lenin's co-operative plan into practice.

The basic characteristic of the taxation policy of the Soviet state during the transition period from capitalism to socialism was to increase taxation of capitalist elements and to give maximum reliefs in taxing the working people. Consequently, the financial policy of the Soviet state furthered the main objective of that period–expropriation of the bourgeoisie and construction of the foundations of socialist society.

The financial measures of the Soviet state during the the transition period were based upon the general laws of socialist construction. They are thus of international significance. The People's Democracies, in solving the extremely difficult problems of the transition period, have made use of the experience of the Soviet Union.

In the following period the Soviet Union was presented with new problems connected with the building of socialism and preparing for the gradual transition from socialism to communism, and the role and functions of finance changed significantly. In consequence of the elimination of capitalist elements it was no longer necessary to use finance as one of the instruments for restricting and squeezing out capitalist

elements in town and country. With the victory of socialism, the distributive function of finance came to be exercised within the bounds of a unified socialist economy and in the financial relations between the state and the people. At the same time the importance of finance grew immeasurably in connection with the functions of the Soviet state in organising the economy and in cultural and educational work.

In conformity with the requirements of the law of planned, balanced development of the national economy and of the basic economic law of socialism, financial policy in the period of full-scale communist construction has the following objectives:

(1) to provide the necessary monetary resources for the growing financial needs of extended socialist reproduction and to solve the principal economic problem, i.e., the problem of establishing the material and technical basis of communism;

(2) to encourage the development of the productive forces of the country and the growth of the productivity of social labour, to develop and improve socialist relations of production by strengthening socialist property and by establishing the conditions for a gradual development of the collective-farm and co-operative form of ownership into national ownership;

(3) to provide financial resources for the social and cultural needs of society by forming and using the growing social consumption funds;

(4) to render financial aid to the socialist countries and to economically developing countries, with the aim of fostering and accelerating the development of their economies and of raising the standard of living of the people of these countries.

The general line of the financial policy of the Soviet state has been and remains to assist actively the growth of the productivity of labour in industry, agriculture and in all other branches of the economy, to enforce the strictest regime of economy, to make state administration simpler and cheaper in every possible way, to strengthen the system of cost accounting and financial discipline, and to struggle to eliminate wasteful expenditure of state resources.

The financial policy of the Communist Party is an expression of the Leninist national policy of fraternal friendship

and mutual aid between different peoples and of the constant concern of the Party and Government for developing all aspects of the economy and culture of the Union and Autonomous republics.

Soviet financial policy in relation to other states is directed towards strengthening and developing economic and cultural relations with all countries of the world, irrespective of their socio-economic structure.

At the present stage of development, it is an important function of socialist states to organise collaboration and mutual aid between the countries of the world socialist system. This new function of the socialist states arose when socialism was no longer confined within the borders of the U.S.S.R. and became a world system. This has been demonstrated by the system of many-sided economic, financial and cultural relations which have developed between the socialist countries.

In the period of the full-scale building of communist society, specialisation and co-operation of production between socialist countries are developing, the international division of labour is extending and the various forms of international economic collaboration are being strengthened. In this period commodity-money relations and financial ties within the world socialist system are expanding considerably. In organising economic collaboration and the mutual financial relations based upon it, the socialist states proceed from the objective necessity of utilising the economic laws of socialism, which are inherent in all the countries of the world socialist system. Thus the mutual co-ordination of plans, which proceeds from the principles of international division of labour, assists a more rational distribution of capital investment and a consequent increase in its efficiency. It must be emphasised in this connection that joint participation between countries of the socialist system in financing capital investments does not lead to economic dependence. An enterprise built with the aid of joint capital investment is the property of the country in which it was built, irrespective of its sources of finance.

Collaboration and mutual aid between socialist countries are a necessary condition for gradually smoothing out differences between the economies and cultures of individual countries and for establishing the economic prerequisites for a more or less simultaneous transition of all the countries in the world socialist system to communism.

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The nature of Soviet finance and the content of the financial policy of the U.S.S.R. reflect the general laws of the development of a socialist economy common to all socialist countries. The People's Democracies established their financial and credit system by making creative use of the experience of building socialism in the U.S.S.R. which is of historic significance. They were particularly influenced by Soviet experience in establishing a unified socialist finance and credit system, in conformity with the new economic relations.

The successes of the countries which form part of the world socialist economic system were achieved by correctly applying the general laws of socialist construction, while taking into consideration the historical characteristics of each country. The financial system of socialism is also governed by these laws.

In the Declaration of the representatives of Communist and Workers' Parties of the socialist countries, meeting in Moscow in November 1957, it was pointed out that "the experience of the Soviet Union and the other socialist countries has fully borne out the correctness of the Marxist-Leninist proposition that the processes of the socialist revolution and the building of socialism are governed by a number of basic laws applicable in all countries embarking on a socialist course."*

Any attempts to ignore these general laws of socialist construction are manifestations of revisionism. Revisionists, who preach "national communism" and attribute prime importance to specific features in the development of each country, emphatically deny the general laws and principles of socialist construction.

The expropriators are expropriated. Socialist ownership of the principal means of production is established. The banks are nationalised, the tax system is transformed from a weapon of additional exploitation of the people into a weapon for squeezing out and eliminating capitalist ownership and for restricting the private property tendencies of the petty bourgeoisie. Dependence upon foreign capital is got rid of.

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* *The Struggle for Peace, Democracy and Socialism*, p. 14.

Exploitation of man by man and parasitic consumption of the national income are eliminated. All these laws hold good for all countries which set out on the road to socialist reorganisation.

Proceeding from the general laws of socialist development, Lenin elaborated the principles by which finance should be organised and utilised as a powerful tool for building socialism. These principles are of international significance. They are at the basis of the financial policy of the countries of the world socialist economic system.

A number of common features and similar functions are characteristic of the financial systems of the countries within the world socialist economic system. *Financial relations are planned and organised* on a national scale. *The financial system is unified*–this is reflected in the close links between state finance and the finance of socialist enterprises and branches of the economy, and between the insurance of state property and personal insurance, state social insurance and various forms of credit. *The State Budget plays a leading role* in the system of financial plans. *There is no deficit in the State Budget,* there is a permanent surplus of revenue over expenditure. *The net income of society* created in the state sector of production *is the basic source of state budgetary revenue. The major part of the financial expenditure of the country has to be concentrated in the hands of the state. The budgetary system is constructed on the principle of democratic centralism,* so that the centralised planned management is integrally combined with extensive activity on their own initiative by local authorities and by the people themselves. *The major part of the financial resources of the state is used for productive purposes*–for financing the economy and social and cultural measures. The financial systems of countries entering the world socialist economic system *have identical functions.*

A common feature in the organisation of financial relations in socialist countries is that the Leninist principle of democratic centralism is put into practice. Centralisation of finance provides the necessary condition for maintaining proper national economic proportions and for securing the planned process of social reproduction. Modern industrial giants are constructed such as large hydroelectric power stations, metal-

lurgical combines, main line railways and gas pipelines, and this requires centralisation in the hands of the Soviet state of great material and financial resources and their planned use. Without this, it is quite out of the question to solve the problems of creating the productive forces of communism.

Although identical economic laws determine the development of the socialist countries and common principles of economic and financial policy are applied, the specific features of each country are taken into account, in fact, socialist construction presupposes this.

While proceeding from the economic laws of socialism, the Communist and Workers' Parties of the People's Democracies take into account the uniqueness and special characteristics of each country in organising their economies and their finance. Lenin wrote: "All nations will arrive to socialism–this is inevitable, but all will do so in not exactly the same way, each will contribute something of its own to some form of democracy, to some variety of the dictatorship of the proletariat, to the varying rate of socialist transformations in the different aspects of social life."*

The specific national features of countries are greatly determined by the different levels of economic and political development.

The special features of the development of People's Democracies are primarily a result of their having started on socialist construction under more favourable conditions, in view of the existence of the Soviet Union, the land in which socialism triumphed. Owing to the Soviet Union, the People's Democracies were spared foreign military intervention. They are using the major historical experience and disinterested fraternal assistance of the Soviet Union in building socialism. The countries within the socialist system have a close economic co-operation amongst themselves on the basis of a sensible international division of labour. All this considerably simplifies and accelerates the solution of the problems of socialist construction within these countries. At the same time, the various forms and methods by which finance is organised in different socialist countries enrich the experience of socialist construction.

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* Lenin, *Collected Works*, Vol. 23, pp. 69-70.

Chapter 2

FINANCIAL SYSTEM OF THE U.S.S.R., THE PRINCIPLES OF FINANCIAL PLANNING

Financial System of the U.S.S.R.

The financial system of the U.S.S.R. is the totality of the various subsystems of financial relations in which funds of monetary resources are formed and utilised in a planned way.

The existence of monetary relations which embrace all branches of the socialist economy makes it objectively necessary that the unified Soviet financial system should have subsystems within it. Each subsystem of financial relations is served by a financial institution appropriate to it; this institution organises financial activity within the subsystem, basing its work on the planning of the movement of the funds of monetary resources appertaining to the subsystem.

Each subsystem is an independent financial institution with its own specific functions. The monetary fund formed within it, therefore, has a particular purpose, a specific area of activity within which it is used through the medium of the financial institution concerned.

In carrying out its functions, the Soviet state makes use of the following sources of money revenues: the centralised fund of state budgetary resources; the state social insurance fund, which is a component part of the State Budget; the state property and personal insurance fund; the credit resources fund (state loans, deposits with savings banks, short and long-term credit resources).

There are two forms of socialist property (state property and collective-farm and co-operative property) within the Soviet economy, in addition to personal property. Different types of income are formed in the process of distributing the social product and national income. The objectives and the methods of this distribution vary with the different types of income. All these factors, and the very nature of the circulation of resources in the process of reproduction predetermine the variety of methods and forms of accumulating and utilising monetary revenue.

To each of the funds of monetary resources enumerated above there correspond particular forms and methods by which they are accumulated and used within a subsystem of the financial system of socialist society.

All subsystems of financial relations are integrally connected and together constitute a unified financial system of socialism, based on the unity of the socialist economy and of the whole process of social reproduction. This is an important advantage of socialist finance, and results from the social ownership of the means of production and the socialist economic system.

The unified socialist financial system consists of: (a) finance in socialist enterprises and branches of the economy, (b) the State Budget, (c) state social insurance, (d) state property and personal insurance and (e) various forms of credit.

Corresponding to the two forms of socialist property, *finance in enterprises and branches of the economy* is subdivided into the finance of (i) state, and (ii) collective-farm and co-operative enterprises and organisations.

The foundation and starting point in the whole system of Soviet finance is the subsystem of *finance in socialist enterprises and branches of the economy.* It includes monetary relations in the process of material production, the process in which the national income is created. The national income is of course the source from which financial resources are provided for all the subsystems of the unified socialist financial system.

The stability of the entire financial system depends, in the final analysis, on the financial position of socialist enterprises and branches of the economy. It is, therefore, necessary that the integral connection between the finance of enterprises and branches of the economy, on the one hand, and state centralised finance, on the other, should be permanently maintained. The financial resources of socialist enterprises and organisations must grow if enough resources are to be collected into the State Budget at the right time and the economy and social and cultural measures are to be successfully financed.

The State Budget is the central link of the unified socialist financial system. It occupies a leading position in the financial systems of both the U.S.S.R. and the other socialist countries. Through the State Budget, the U.S.S.R. creates the state

centralised fund of monetary resources in order to provide the finance required for the economy, for social and cultural measures, state administration, national defence and the formation of state financial reserves.

The budget is not simply a sum or an estimate of money incomes and expenditures; it is an economic category which reflects the particular economic relations connected with the formation and distribution of the state centralised fund of monetary resources. At the same time, the State Budget, as the main form for systematic creation and use of the centralised fund of monetary resources, constitutes the basic financial plan of the socialist state.

Consequently, the State Budget is an economic category inasmuch as it expresses the set of economic relations connected with the creation and use of the centralised fund of monetary resources. At the same time, the budget is the main financial plan of the socialist state, inasmuch as a large part of the national income in money form is systematically distributed and redistributed through it.

The mode of social production and the dominant social relations determine the conditions and principles for accumulation of monetary resources by the state, and also determine the way in which these resources are used.

The budget of the socialist state is integrally connected with all branches of the economy and operates as the budget of the whole economy. The means of production are in social ownership, and the role of the state in the country's economic development is decisive. Owing to this, most of the revenue of the Soviet budget is received directly from the socialist economy. The accumulations of state enterprises are the main source of financial resources for socialist society.

State centralised income in monetary form is in the main created *through two channels*: through turnover tax and through deductions from profits. They serve to distribute the value of the surplus product, or net income, of state enterprises. In their economic origin they are, therefore, homogeneous.*

The fact that the socialist State Budget is the budget of the whole economy may also be seen from its expenditure

* The economic essence of profits and turnover tax and also the principles by which they are distributed and used are discussed in more detail in Chapters 7, 10 and 11.

side. Budgetary resources are primarily used for extended socialist reproduction. In this case, part of the national income is directed, through the budget, to financing increases in the production funds of the socialist economy and to supplement working capital.

Budgetary resources are also used for the reproduction of labour power, for social and cultural measures and for other needs (administration and national defence).

Allocations of budgetary resources, as distinct from credit, do not involve obligatory repayment at fixed dates. The principle of non-repayment of budgetary allocations to the national economy springs from state ownership of the basic means of production and is a characteristic feature of the way in which expenditure of the socialist state on the economy is organised.

State social insurance provides material security for factory and office workers and members of their families in case of temporary or permanent disablement. The social insurance budget is formed from a definite part of the net income of society, through a charge on the amount of wages paid to factory and office workers, and is administered by the trade unions. In the U.S.S.R., allocations to social insurance increase from year to year.

In *state property and personal insurance* funds of monetary resources are formed for compensating losses borne by citizens and by collective-farm and co-operative enterprises and organisations as a result of natural disasters and accidents. Individual citizens and collective-farm and co-operative enterprises and organisations provide the sources for this type of insurance.

Property insurance does not cover state property, as all damage caused to it by natural disasters and accidents is compensated from the State Budget of the U.S.S.R. or from a special insurance fund. There is, therefore, no necessity within the limits of state ownership to establish a special insurance fund from the net income of each enterprise.

In a socialist society, the credit system reflects economic relations connected with the collection and planned use of temporarily free monetary resources which are later repaid.

Credit participates in the change in forms of value (Money–Commodity and Commodity–Money) when the working capital of cost-accounting enterprises circulates. It is an

important instrument in the hands of the state for stimulating fulfilment of production and sales plans.

The sources for the formation of credit resources is money temporarily set free in the process of the circulation of enterprise production funds and state budgetary resources, and also the population's savings.

Thus, in socialist society, as well as non-repayable finance for extended reproduction derived from the resources of the State Budget, there is also a state credit fund, the formation and use of which constitutes the credit method of redisributing the national income.

Both the credit system and the financial system as a whole reflect the system of monetary relations which exists in a socialist economy. The categories of finance and credit are homogeneous and of the same type because both finance and credit are reflections of the movement of value in its monetary form, a movement which is associated with the distribution of money incomes and accumulation. The function of state finance is to assist the formation of monetary funds which are assigned to state socialist enterprises, and provide financial resources for the maintenance of non-productive institutions and organisations and for the formation of state reserves. The function of credit is to meet the temporary monetary requirements of socialist enterprises (and to some extent of the individual citizen); in its practical application, the main function of the credit method of financing is to assist the expansion of fixed assets and working capital.

The difference between finance and credit is only a difference within a unity: the economic nature and substance of finance and credit as forms of value do not change because they take different forms in their practical application to the process of extended reproduction. All this makes it possible to treat credit as a separate subsystem of the unified financial system of socialism, a subsystem which has its own mode of operation.

Under socialism, two types of credit exist: short-term and long-term.

Short-term credit provides monetary resources for the circulation of working capital in state enterprises, collective farms and consumer co-operatives. The main principles of short-term credit are as follows: loans are repaid at fixed dates; loans must be used only for the stated purpose; loans must be secured by commodities and physical assets. If these principles are observed, cost accounting is strengthened, the growth of socialist production is promoted and resources circulate more rapidly. The State Bank of the U.S.S.R. is the sole centre for short-term credit.

Long-term credit differs from short-term credit both in the period and in the purpose for which loans are given. Short-term credit is issued to supplement the working capital of socialist enterprises and organisations; long-term credit is a financial source for covering outlays on fixed assets for productive and non-productive purposes. Thus, state enterprises receive long-term loans from the State Bank of the U.S.S.R. for the introduction of new technique and for modernisation of existing equipment. The collective farms receive long-term credit on an increasing scale from the credit resources of the State Bank of the U.S.S.R. for capital investment and to acquire machinery.

To some extent long-term credit is provided by the Construction Bank of the U.S.S.R. (Stroibank). The principal function of the Construction Bank of the U.S.S.R. is to provide non-returnable finance for capital investment in the state sector of the national economy.

The Soviet state gives financial assistance to the general public by means of long-term credit (for private house-building, etc.).

The same principles apply to long-term as to short-term credit: loans are repaid at dates fixed by the plan, are given only for stated purposes and must have commodities and physical assets as security.

State credit also forms part of the Soviet financial system, and takes two forms: savings and state loans.

The essence and distinctive character of state credit lies in the fact that the state is the borrower and the general public is the main lender. For this reason state credit, as distinct from bank credit, is used to plan and organise monetary relations between the socialist state and the general public.

Savings by individuals and the free money incomes of collective farms, co-operatives and state insurance bodies are collected for central state needs through the system of state loans. Loans and savings bank deposits are also an important prerequisite for balancing the money incomes and expenditures of the population in accordance with the state plan for distribution and use of monetary resources.

In view of the principles of its formation and conditions of its use, state credit constitutes part of the credit subsystem of the unified financial system of socialism. Resources received from the sale of bonds of state loans and the stable balances

of savings bank deposits are used through the State Budget for financing the economy and for financing social and cultural measures.

A stable foundation for further improvement and development of the financial system of the U.S.S.R. has been provided by the successes of the Soviet economy in fulfilling the Seven-Year Plan, the growth of accumulation within the economy, the strengthening of the ruble and the introduction of a new level of prices.

Financial Planning

The active part played by socialist finance in the process of extended reproduction is clearly shown in the process of financial planning.

In planning the economy and in distributing the social product and national income, the socialist state proceeds from the economic laws of socialism and consciously puts them into practice in drawing up scientifically based national economic plans.

The requirements of the fundamental economic law of socialism and of the law of planned balanced development of the economy are taken into account in two ways. First, in conformity with the aim of socialist production, financial resources are used to make possible preferential growth of the production of means of production on the basis of new technology, and on this foundation to improve the material and cultural standard of life of the people; second, they are used to maintain the necessary proportions between the movement of money and materials on the one hand and the expenditure of financial resources in conformity with the national economic plan on the other.

In financial planning, the state is guided by the requirements of the fundamental economic law of socialism and of the law of planned balanced development, but it also takes into account the operation of the law of value under socialism. This can be seen in particular from the fact that financial resources are used in accordance with the principles of achieving maximum efficiency from minimum outlays.

Financial plans are plans for forming and using the monetary incomes, accumulation and savings of socialist

enterprises and organisations, of branches of the economy and to some extent of the population, as well as those of the state as a whole. Therefore, financial plans are an integral part of national economic plans.

They actively influence the economy and are an important weapon in the hands of the socialist state, used to promote the fulfilment of the quantitative and qualitative indices of the national economic plans. Fulfilment of the financial plans depends on fulfilment of the national economic plan, and the financial plans in their turn assist fulfilment of the national economic plan.

This close mutual connection between production and financial plans has been characteristic of the socialist economy since the moment of its emergence.

One of the characteristic features of the financial plans is that they are of a synthetic character. They reflect in a generalised form the quantitative and qualitative indices of the national economic plan, and make it possible to control the fulfilment of these indices in a unified value (monetary) form.

A most important prerequisite of financial planning is that the connection between production and financial indices should be maintained and that there should be a correct relationship between the structure of the national income in value, or monetary, terms and its structure in physical terms. When plans are made, the movement of financial resources is made to agree with the movement of physical resources through national economic balance sheets (physical budgets).

The principal objectives of financial planning are as follows:

(1) To fix the sources and amount of centralised and decentralised monetary funds which are necessary for extended socialist reproduction and for satisfying other requirements of the socialist state.

(2) To secure the necessary proportions in the distribution and use of monetary resources, in conformity with the plan for distributing the aggregate social product and the national income.

(3) To encourage more efficient use of labour, money and materials, the reduction of production costs and the discovery of untapped resources in the production process by establishing financial control.

These are the most important objectives of financial planning and they indicate its profound integral connection with national economic planning.

In the process of financial planning the Soviet state makes use of the distributive and control functions of socialist finance. The distributive function is used in order to establish proportions which are justified from the economic point of view between the different funds of monetary resources when the plans are drawn up, and to make sure that these funds are correctly allocated to the different branches of the economy, spheres of activity and economic regions. The control function is used to make sure that the proportions proposed in the plan for the distribution of resources are maintained and that resources are used rationally, and strictly for the purpose intended.

The distributive and control functions of socialist finance are carried out in practice through the system of financial plans; the latter lay down not only the allocation of financial resources, but also the conditions on which they may be used, i.e., the financial routine appropriate to the principles of socialist management and achieved by means of financial control.

In the context of the central role of the State Budget, financial planning is required to ensure that monetary turnover throughout the country is in accordance with the plan. Monetary turnover is linked with a number of processes: the reimbursement of production and trading costs, the distribution of net income, the extended reproduction of fixed assets and working capital and the creation of social consumption funds. This means that, in view of the existence of commodity-money relations, financial planning must assist to obtain the right final proportions in the distribution of the national income of the U.S.S.R.

There exists a wide structure of financial plans in the U.S.S.R. which correspond to the various subsystems of the financial system. This structure includes: (a) the financial plans (budgets of income and expenditure) of state enterprises, ministries, and their administrations, trusts and other organisations; (b) the estimates of economic organisations fully financed by the budget; (c) the estimates of educational, public health, government, defence and other institutions; (d) the financial plans of co-operative organisations; (e) the

financial and production plans of collective farms; (f) the financial plans of certain financial agencies–state insurance agencies, savings banks; (g) the state social insurance budget; (h) the credit plan of the State Bank of the U.S.S.R. (Gosbank) and the Construction Bank of the U.S.S.R. (Stroibank); (i) the State Budget of the U.S.S.R.; and (j) the aggregate financial plan.

The financial plans handle the movement of monetary resources in all branches of the socialist (state, collective-farm and co-operative) economy, as well as in the spheres of cultural construction, administration and national defence. Together they make up a single whole within which the State Budget of the U.S.S.R. plays the leading part.

In working out the financial plans due regard is given to the interests of government departments and branches of the economy. All expenditures are earmarked for definite purposes. The departmental principle gives the financial plans an operational character, makes it possible for each ministry and department to check on the course of plan fulfilment, and increases the responsibility of their officials for the fulfilment of the plan. The financial plans of branches of economy make it possible to determine the use made of total resources subdivided by branches (independently of what authority they come under), and thus facilitate the maintenance of the necessary proportions in the development of each branch of the economy. The principle of compiling financial plans by purpose of expenditure ensures the necessary homogeneity and uniformity in the indices of various financial plans and helps in the exercise of control over their fulfilment.

Financial plans cover a period of a year with quarterly break-downs (these include the budget, and the balance sheets of income and expenditure); or are quarterly (the credit plan of the State Bank). Unlike other financial plans, the credit plan of the State Bank does not show income and expenditure flows; it shows the amount of monetary resources at the bank at the beginning and end of the planning period and the liability of the enterprise to the bank in credit issued.

The whole system of financial planning in the U.S.S.R. is built up on the method of balancing receipts and expenditure. This method in financial planning means that the planned proportions in the movement of financial resources are arrived

at by comparing and bringing into harmony the requirements for financial resources, on the one hand, and the sources for meeting them, on the other hand. Income and expenditure must be balanced in every financial plan.

The balance sheet of income and expenditure of a state enterprise is a financial plan in which all the income and expenditure of the enterprise are shown (excluding turnover on sales and mutual relations with the financial agencies for short-term credit); the financial plan also establishes the connection of expenditure with income, and with the major production indices of the work of enterprises. If the balance sheet of income and expenditure is compiled correctly and its fulfilment properly controlled, it becomes possible to use monetary resources in the process of social reproduction with maximum efficiency.

In addition to enterprises and organisations working on cost-accounting principles, ministries and their branch administrations, also draw up estimates of income and expenditure. The aggregate balance sheets of branch administration include the financial plans of the enterprises and economic organisations which come under them and the expenditure of the branch administration itself.

Ministries directly administer enterprises. This enables them to take untapped internal reserves more fully into account and to involve the personnel of enterprises more extensively in financial planning. Ministries decide only the main indices, necessary for compiling the production and financial plan. Most planning indices are decided by the management of enterprises.

One form of financial plan is the *estimate.* Estimates are compiled by institutions and organisations which function in the non-productive sphere, are not operating on a cost-accounting basis and as they have no independent source of income,* are fully or partially financed from the budget. This category includes educational, cultural and health institutions, state administration and public organisations. Estimates are based on production indices, planned staff, wage rates, standards of expenditure, etc.

* Budgetary institutions and organisations can have some independent sources of income. These incomes go to the budget, as a rule, or are spent according to special estimates of extra-budgetary resources, which are compiled according to special sets of rules.

Financial plans are also compiled by all co-operative organisations–rural retail co-operatives and co-operative unions.

The higher bodies of the co-operative system draw up aggregate financial plans on the basis of the financial plans of enterprises and organisations.

Collective farms express their financial relationships in *production and financial plans.* Until recently the form of the collective-farm financial plan–an estimate of income and expenditure–was not related to the cost of output and it was not possible to assess the profitability of each branch of farming. Collective farms have now gone over to the preparation of a unified production and financial plan, which includes an income and expenditure estimate in which all the income and expenditure of the collective farms are closely tied in with the qualitative and quantitative indices of the production plan. The production and financial plan determines the entire requirement of the collective farm for financial resources, including bank credit, stating the sources from which it will be repaid.

Commodity-money relations in collective farms are significantly expanding, and this means that arrangements for planning the financial side of their economic activity ought to be improved still further.

The economy of collective farms is continuously growing and becoming stronger. Their economic and financial activities are improving. Forms of monetary turnover are being extensively introduced into the economy of the collective farms. The proportion of their income which collective farmers receive from collective working is increasing and the proportion they receive from their personal plots is decreasing. These developments are creating all the prerequisites for raising the level of financial planning in collective farms to that of the state sector.

The financial plans of state savings banks consist on the income side of (1) interest on sums invested in state loans; (2) interest on accounts in the State Bank of the U.S.S.R.; (3) grants from the budget to repay outlays in connection with state loans; (4) charges collected from individuals and organisations for banking operations. The expenditure side consists of interest payments on deposits and of operational and administrative costs.

The financial plan for state insurance includes, on the income side all receipts from insurance premiums and interest received from the State Bank and on the expenditure side all outlays connected with conducting insurance operations and carrying out measures for the prevention of natural disasters, payment of insurance losses, deductions from profits to the budget, and other expenditure.

The financial plan for social insurance is an aggregate budget of state social insurance; it is an independent part of the structure of the State Budget. Insurance contributions from state enterprises and public organisations are the main source of income for the social insurance budget. On the expenditure side, resources are directed to specific purposes such as: payment of allowances for temporary loss of capacity to work, pensions for disablement, old age and long service; sanatorium and health resort facilities for factory and office workers; tourism, etc.

The aggregate state social insurance budget for the country embodies the social insurance budgets of the trade union councils of the Union republics, and the centralised estimate for social insurance of the All-Union Central Council of Trade Unions.

About 70 per cent of all the funds in the social insurance budget are covered by the social insurance estimates of factory, and trade union committees.

The State Budget of the U.S.S.R. is the main financial plan of the socialist state and is of decisive importance in the system of financial plans.

More than half the national income of the country is utilised through the State Budget of the U.S.S.R.; the major part of monetary turnover is systematically allocated through the budget, in connection with repayment of production costs, distribution and redistribution of the net income of socialist enterprises, and financing the expansion of fixed and working capital.

In distributing and redistributing the national income, and in providing finance for the economy, for social and cultural measures, for administration and for national defence, the State Budget shapes the financial plans of all branches of the economy and of organisations in the non-productive sphere on the basis of the targets of the national economic plan. In this way, the principal proportions for distributing the

national income–the relation between the consumption and the accumulation funds–are fixed in the State Budget of the U.S.S.R. All this shows the great importance of the budget of the socialist state in the system of financial plans. Every branch of material production and sphere of activity is linked with the State Budget.

The aggregate financing plan of the economy, drawn up by the State Planning Committee of the U.S.S.R. (Gosplan), is a synthesis which completes the whole system of financial planning.

The aggregate financial plan of the national economy has the objective of co-ordinating and balancing the financial plans and production plans of branches of the economy.

The aims of the aggregate financial plan are as follows:

(1) to show the dynamics of the movement of financial resources in the country for all the subsystems of the unified socialist financial system;

(2) to promote co-ordination and unity in all the financial plans of the socialist state, and determine the place of each of them in the system of the unified financial plan, and on this basis to achieve balanced co-ordination in the use of material and financial resources;

(3) to determine the extent to which the targets of the national economic plan are supported by the necessary monetary resources.

The aggregate financial plan, like all other plans in the socialist economy, is based on the balance sheet method, consisting of both an income and an expenditure side. The income side shows profits, depreciation deductions, state budgetary revenue, state property and personal insurance premiums, state social insurance contributions, the net increase in savings bank deposits, etc. The expenditure side provides for financing the economy, social and cultural measures, administration and national defence. It also provides for payment of insured losses to collective farms and to individuals and for expenditure on pensions and allowances under the social insurance budget, etc.

The aggregate financial plan differs from other plans in that it is not approved by the Council of Ministers of the U.S.S.R. and is not an operative plan. It is a document which records and estimates, and it is a necessary prerequisite for the co-ordination of all parts of the national economic plan

with the financial plans and above all, with the State Budget, which is the leading element in the system of financial plans.

The ministries carry out financial planning, control the distribution and use of financial resources, redistribute part of profits and the surplus of working capital, create financial reserves and bear the responsibility for the fulfilment of accumulation plans and financial plans of the enterprises under their jurisdiction.

The system for drafting and approving the annual national economic plans was changed in 1959 in order to improve the planning and management of the economy and bring it into line with the new system of industrial organisation. National economic planning is now based upon long-term plans in which the targets are given for each year. This whole system of planning is founded upon the plans which enterprises, building organisations, local Soviets, ministries and government departments themselves prepare on the basis of the targets of the long-term plan.

There have also been important changes in methods of financial planning. The financial plans of enterprises, the aggregate plans of ministries, and the budget estimates are all constructed on the basis of the long-term national economic plans, taking into account the amendments arising from the course of plan fulfilment. Similarly, the State Budget for each year is worked out on the basis of the control figures of the long-term plan for the economic development of the U.S.S.R. and the Union republics.

Financial planning methods must be further developed and the initiative and responsibility of local organisations in preparing and fulfilling financial plans must be increased. This is one of the conditions for successfully achieving the political and economic objectives which the Party and Government have set for the period of full-scale communist construction.

The Programme of the Communist Party of the Soviet Union states that "the building of the material and technical basis of communism calls for a continuous improvement in economic management and planning. Chief emphasis at all levels of planning and economic management must be laid on the most rational and effective use of the material, labour and financial resources and natural wealth and on the elimination of excessive expenditure and of losses."

The reserves being created by the state, socialist enterprises and economic organisations are designed to meet unforeseen requirements and to balance partial disproportions, which may arise in the implementation of the plan.

A scientifically based and balanced co-ordination of the component parts of the national economic plan—physical and financial—is of decisive importance for making further improvements in planning. This means that each annual financial plan must form an integral part of the long-term financial plan which covers a number of future years.

* * *

The management of the socialist economy operates on the principle of centralised planning. It is conditioned by the nature of the socialist economy, the unity of the economic basis of the U.S.S.R. and the necessity of uniting the efforts of the whole Soviet people in the struggle to build communism. At the same time, centralisation itself presupposes extensive initiative on the part of local administrative organs in all the national republics and autonomous regions.

After the October 1917 Revolution, Lenin wrote: "Just as democratic centralism in no way excludes autonomy and federation, so, too, it in no way excludes, but on the contrary presupposes, the fullest freedom of various localities and even of various communes of the state in developing multifarious forms of state, social and economic life. There is nothing more mistaken than confusing democratic centralism with bureaucracy and rutinism."*

The principle of centralism in organising the financial system ensures both the planned distribution and redistribution of financial resources and the formation, on this basis, of a state centralised monetary fund. At the same time, financial centralisation is an essential prerequisite for maintaining the correct proportions in distributing the national income between various branches of the national economy, between Union republics and between economic regions.

The Programme of the C.P.S.U. pointed out that "communist construction presupposes the maximum development of

* Lenin, *Collected Works*, Vol. 27, pp. 207-08.

democratic principles of management coupled with a strengthening and improvement of *centralised economic management by the state*". Centralised planned management is concentrated on objectives which include "enforcing a single state policy in the spheres of technical progress, capital investment, distribution of industry, payment of labour, prices and finance and a unified system of accounting and statistics".

Centralisation in the financial system is combined with the principles of socialist democracy by the delegation of extensive administrative, economic and financial rights and powers to Union and Autonomous republics and to local organs of government.

Advantages of the Socialist Financial System Over the Financial Systems of Capitalist States

The fundamental differences between capitalism and socialism in the mode of social production, in the character of economic laws and in the nature and functions of the state, determine the principal distinctions between the socialist financial system and the financial systems of capitalist states.

Socialist finance, based on social ownership, reflects new social relationships, which exclude the exploitation of man by man. A most important feature and distinguishing mark of socialist finance is that it is the finance of the whole economy, is linked with production and is used for communist construction with a view to satisfying as fully as possible the growing material and cultural needs of the whole of society. Capitalist finance is subordinate to the requirements of the basic economic law of capitalism and is used by the bourgeoisie for making high monopoly profits.

In socialist countries as opposed to capitalist countries, there exists an integral connection between the finance of enterprises and branches of the economy on the one hand and central state finance on the other. The socialist state, as owner of the key means of production in the numerous enterprises and branches of the economy, directly participates in the distribution of the social product and national income. Therefore, finance comprises both central state finance and the finance of state enterprises and branches of the economy.

Under capitalist conditions, where social production is founded upon private ownership of capital, state finance cannot cover the whole economy and is restricted to the budgets of the central government and of local authorities.

Under capitalism, the basic and key sections of the economy are owned by capitalist monopolies. The bourgeois state cannot, therefore, dispose of the accumulation of capitalist enterprises as its own property. This means that it cannot take a direct and immediate part in the distribution of national income created in the sphere of material production (except for the income of state nationalised enterprises, which is an insignificant part of the whole).

In contrast to the financial system of socialist society, the financial system of bourgeois states handles only the sphere of redistributive relationships (if we omit the small sector of state enterprise employing wage labour). Finance primarily serves capitalist society politically, in that it acts as a means of supplementary exploitation of the people and of protecting capitalist private property. All this exposes the falsity of the assertions of contemporary revisionists, who vainly try to prove that "equalisation of income" is taking place under capitalism, and that this equalisation is to a considerable extent carried out through the financial system, credit and taxation policy of the bourgeois state.

In their search for ways to "stimulate" the economy and to avoid crises of overproduction, bourgeois economists propose financial programmes which in essence lead to an increase in non-productive expenditure upon military and other anti-social ends, a reduction in taxation on the profits of corporations and an increase in taxes on the people.

The financial system of a socialist state is an instrument for organising the planned development of the economy, and is a most important means of encouraging the development of productive forces. Increases in production and national income are accompanied by increases in state financial resources.

The advantages of socialist finance are revealed particularly clearly in the State Budget, the main financial institution of the Soviet state. The budget of the U.S.S.R. is directly connected with material production and with the primary distribution of the national income, and is, therefore, fundamentally different from the budgets of capitalist states. The funda-

mental source of budgetary revenue in the U.S.S.R. is the income and accumulation of socialist enterprises.

Receipts from the socialist economy make up more than 90 per cent of all budgetary revenue in socialist states. Direct and indirect taxes occupy the key place on the revenue side of the budgets of capitalist countries. Taxes make up 90-95 per cent of all budgetary revenue in capitalist countries.

With the help of the state, the bourgeoisie transfers most of the tax it pays to the mass of the population by raising the price of the finished product, lowering the prices of raw and auxiliary materials, increasing labour intensity and other methods. Even according to official bourgeois figures, taxes reduce the incomes of the working people in capitalist countries by one-third. The bourgeois state employs taxes as an instrument for supplementary exploitation of the mass of the people.

The budgets of socialist states also differ from the budgets of capitalist states on the expenditure side. A very high proportion of centralised funds, concentrated in the budget of the socialist state, is spent productively–on development of production, training of personnel and improving national welfare. Thus, the state budget under socialism plays an important part in extended reproduction.

In contrast to this, capitalist states expend budgetary resources non-productively: on the militarisation of the economy and the arms race, on maintaining the machinery of suppression (the government machine, the police, the army), on subsidising capitalists and landowners and on other anti-social purposes.

A very great advantage of socialist finance is that it is planned, that it is one of the levers of national economic planning. Successful fulfilment of the budget, which is the basic financial plan of the socialist state, and of the financial plans of enterprises depends upon fulfilment of the quantitative and qualitative indices of the production plans.

Revisionists, following the bourgeois ideologists, assert that contemporary capitalism has been transformed into "people's capitalism", and that the bourgeois state has become a "welfare state", capable of overcoming the anarchy of production and economic crises and able to maintain full employment and secure the welfare of all working people. On this basis, they attempt to present state finance and the state

budget of capitalist countries as the means for satisfying "collective needs" and as a means for planning and regulating the capitalist economy. In fact, the financial system in bourgeois states stands outside the process of social reproduction and does not control the capitalist economy, although it does exercise an active influence upon it.

Under capitalism, the planning of finance, like the planning of the economy as a whole, is impossible inasmuch as the economy itself, based on private property, develops according to the laws of competition and anarchy in production. There is only an indirect and partial control of the economy through tax, credit and tariff policies. Control by using finance and credit devices is restricted merely to the sphere of circulation and cannot achieve direct administration of the process of production.

Socialist finance is always very stable. Financial resources are growing continuously. There are no budget deficits and there is always a surplus of revenue over expenditure. There are budgetary reserves, and the issue of currency is not used as a source of revenue. All this is due to the fact that the material foundation of socialist finance is planned production, and that the main direct source of state financial resources is the income and accumulation of socialist enterprises.

Capitalist state finance is subject to the cyclical nature of capitalist reproduction and depends on blindly operating market forces. The non-productive use of budgetary resources, resulting from the arms race and the militarisation of the economy, leads to chronic deficits in the state budgets of capitalist countries, and these clearly indicate the instability of capitalist finance.

Socialist finance is firm and stable, and reflects the progressive advance of the economy towards communism in conformity with the laws of extended socialist reproduction.

Finally, the advantages of socialist finance over finance in capitalist countries are also evident in the field of foreign economic relations. In capitalist countries, foreign economic relations with other states including financial relations, are grounded in antagonistic principles and are directed towards the economic and political enslavement of weak countries by the strong. Marx, in describing the finance of capitalist states, wrote that the bourgeois state needs money in order to carry out oppression within the country and outside its borders.

Today, under the slogan of "aid" to developing countries, the imperialist powers, and first and foremost the U.S.A. are trying to enslave these countries so as to extract profits from the exploitation of their peoples.

Economic relations between socialist countries, including financial relations, are international relations of a new type, based upon the principles of mutual advantage, complete equality and comradely mutual aid.

Chapter 3

ADMINISTRATION OF FINANCE

Principles of Organisation of Financial Administration

Finance is a special sphere of the economic activity of the socialist state. Hence there arises the necessity to establish a special financial apparatus for the direct administration of finance and for the organisation of financial relations in the country.

In the U.S.S.R. the *financial apparatus* is a part of the general machinery of state. It comprises the Ministry of Finance of the U.S.S.R. and its subordinate financial organs, the State Bank of the U.S.S.R., the Construction Bank of the U.S.S.R., and the financial apparatus of enterprises and branches of the socialist economy.

The unified political and economic foundation of the Soviet state determines the unity of the financial system and the financial apparatus. The activity of all parts of the state machine, from top to bottom, is co-ordinated with the financial policy of the socialist state and with the national economic plan.

General control of the whole financial system is concentrated in the supreme organs of state power and state administration in the U.S.S.R.–the Supreme Soviet and the Council of Ministers of the U.S.S.R.

The Constitution of the U.S.S.R. lays down that the Union of Soviet Socialist Republics, through its supreme organs of government and state administration, is responsible for approving the unified State Budget of the U.S.S.R., the

administration of the banks, control over the monetary and credit system, the organisation of state insurance and the floating and granting of loans.

The direct operational administration of the finance and credit system of the U.S.S.R. is the responsibility of the Ministry of Finance of the U.S.S.R., the State Bank of the U.S.S.R., and the Construction Bank of the U.S.S.R.

The financial system is administered on the principle of democratic centralism–centralised planned management, combined with independence and development of the initiative of local authorities. This principle leads to the system of dual subordination of financial organs, beginning with the Ministries of Finance of the Union republics and ending with the local financial organs. Thus the Ministries of Finance of the Union republics are subordinate to the Council of Ministers of these republics and, at the same time, to the Ministry of Finance of the U.S.S.R., and the local financial organs are correspondingly subordinate to the local Soviets and to the superior financial organs. Management of the machinery of finance from a single centre makes it possible to put through a single financial policy for the whole territory of the U.S.S.R. and the most effective and rational use of the monetary resources at the disposal of the state.

The Soviet state, being a socialist state, represents the highest form of democracy. It was strongly emphasised in the Programme of the C.P.S.U. that the Soviet state was the first state to be not the dictatorship of any one class, but an instrument of the whole of society. The state has changed from an instrument of class domination into an organ for the expression of the will of the people. The Programme of the C.P.S.U. pointed out ways of improving and developing the state of the whole people so that the masses should be increasingly drawn into participation in administration and control of the organs of the state.

In a socialist country administration of the state is carried out for the people and by the people. The objective is to draw all citizens into the management of the affairs of society. Many of the problems which now come under the jurisdiction of executive organs of government will be directly dealt with by Soviets of Working Deputies and their commissions.

The C.P.S.U. attaches great importance to continuously improving the work of the state machine; the correct use of

all the resources of the country depends on this to a considerable extent. In the future, the development of the socialist state system will gradually lead to its transformation into communist self-government, uniting Soviets, trade unions, co-operatives and other mass organisations of the people.

The transition to communism requires continuous improvement of the operation of the state and economic apparatus and development within it of democratic and social principles. Wide sections of the population participate in compiling, scrutinising, and implementing budgets. About two million of the finest people in the country are elected to Soviets. More than two million actively participate in the permanent commissions of local Soviets. More than 232 thousand permanent commissions of local Soviets (including about 50 thousand budgetary commissions) help the Soviets and their executive organs to carry out local economic and cultural work.

Composition and Structure of Financial Apparatus in the U.S.S.R.

The composition and structure of the financial apparatus depend upon the existence of various spheres of financial relations within the unified financial system of socialist society. The organisational structure of this apparatus is determined by the state system in the U.S.S.R., which is founded on the principles of democratic centralism and of Lenin's national policy.

The Union-Republican Ministry of Finance is the central link in the whole financial chain. It is responsible for general management of subordinate financial organs, state insurance and state savings banks.

The duties of each link in the financial chain are defined by the functions and rights of the corresponding organs of state power. The Ministry of Finance of the U.S.S.R. and its organs (the ministries of the Union republics, territorial, regional, town and district financial departments) are responsible for: (1) preparing plans for the State Budget of the U.S.S.R., the republican budgets and the budgets of local Soviets, and organising the implementation of the budgets; (2) managing the work of subordinate financial organs, and

(3) examining the drafts of budgets, financial plans and estimates of economic organisations and institutions.

Financial organs supervise ministries, government departments, enterprises and institutions to see that they keep to the fixed staff establishment and within the estimates. They also control enterprises and organisations to ensure that they meet their financial obligations towards the budget in the right amounts and at the right time as regards turnover tax, deductions from profits, and other payments.

Both central and local financial organs are allowed wide powers. Financial organs carry out audits and inspections of the financial activity of ministries, government departments and enterprises.

Consultative bodies are set up under the Ministries of Finance of the U.S.S.R. and of the Union republics; they are known as *Collegium of the Ministry of Finance*. The membership is approved by the Council of Ministers concerned, and comprises the Minister of Finance (chairman), the deputy ministers and senior administrative officers in the ministry (the heads of the central administrations, administrations and departments).

In the Ministries of Finance, central administrations, administrations and departments carry out day to day management of the financial system. The most important administrations are those for the budget, for state revenue and for staffing. The financing of the economy and of social and cultural measures is carried out by administrations and departments for each branch of the economy.

One of the leading structural subdivisions in the Ministries of Finance is the *Administration for the Budget* responsible for the main work of compiling and implementing the budget.

The *Administration for State Revenue* plans and organises the receipt of revenue by the State Budget. It organises the receipt of payments from state enterprises and organisations, co-operatives, collective farms and from individual citizens.

Branch administrations and departments are responsible for providing finance from the budget and for supervising expenditure of state resources.

The *Administration for Accounting and Returns* of the Ministry of Finance of the U.S.S.R. is the methodological centre which organises accounting; it works out accounting procedures and instructions and checks to see that accounts

and returns are properly drawn up. The Ministries of Finance of Union republics have their own departments for accounting and returns.

The *Central Administration for Staffing* of the Ministry of Finance of the U.S.S.R. checks that approved establishment wage rates and wage funds are adhered to.

The *Supervision and Auditing Administration* checks on the implementation of Union, republican and local budgets.

The system of local financial organs comprises territorial, regional, area, town and district financial departments. These departments manage all financial work in their area; they arrange the receipt of budgetary revenue, and make sure that economic, social and cultural measures are financed in the right amounts and at the right time.

The regional financial departments have sections (departments) which deal with financing the economy and with financing social and cultural measures.

The district financial department is the basic link in the chain of local financial organs.

At the present stage of communist construction the importance of the district department in the unified financial system of the U.S.S.R. is increasing. As collective-farm and co-operative ownership grows into national ownership, there will gradually emerge a unified democratic organ for administering all enterprises, organisations and institutions of district significance.

As this develops the powers of district financial departments will be widened: they will gradually take over an increasing number of financial matters, now dealt with by the administrations and departments of executive organs.

The staff of the district financial department includes officers responsible for the budget, for financing the economy, for state revenue and for staffing. An important part is played by the budget inspectorate, the members of which prepare the draft of the district budget and control the preparation and implementation of town, workers' settlement and village budgets. This inspectorate also directly finances social and cultural measures.

Within the area of a district, inspectors of state revenue check that payments made by enterprises and organisations in the form of turnover tax, entertainment tax, income tax on co-operatives, and other forms of revenue are correctly

assessed and paid on time. They also plan tax payments by the individual citizen and local taxes and levies, and arrange their transfers to the budget.

Village Soviets collect payments from the rural population. Since the agricultural tax and other payments made by the rural population have been considerably reduced, the post of tax agent has been abolished.

Inspectors for staffing supervise the establishment and the wage funds of enterprises and institutions, and they organise the registration of established personnel. Inspectors for the finance of the economy supervise the financial activity of enterprises and economic organisations subordinate to the district, and also that of enterprises and organisations concerned with housing and utilities. These officers are responsible for the financing of capital construction and increases in the working capital of enterprises and economic organisations, on the basis of the financial plans and accounting returns. They also report on the quarterly and annual accounts of enterprises and economic organisations.

Village Soviets do not have their own financial staff; the executive committee of the village Soviet directly undertakes the preparation and implementation of its own budget.

Organisation of Special Financial and Credit Institutions

Until 1958, the Ministry of Finance of the U.S.S.R. included the Central Administration for State Insurance of the U.S.S.R. (Gosstrakh). It was abolished in view of the extension of the powers of Union republics, and a Department for State Insurance was established in its place. Administrations for state insurance have been established in Ministries of Finance of Union republics, and, in some Union republics (R.S.F.S.R., Ukraine, Byelorussia), there are Central Administrations for State Insurance, which operate on cost-accounting principles.

Towns and districts have their state insurance inspectorates which prepare draft plans for insurance premiums, pay out insurance claims, and manage and supervise the work of insurance agents.

The State Bank of the U.S.S.R. is responsible for short-term credit and for accounts, and is the cash and currency issue

centre for the country. It is directly subordinate to the Council of Ministers of the U.S.S.R. Its Board directs its entire work. Members of the Board are appointed by the Council of Ministers of the U.S.S.R., and its chairman is appointed by the Supreme Soviet of the U.S.S.R. on the recommendation of the Chairman of the Council of Ministers. Within the central apparatus of the State Bank there are administrations and departments for credit transactions with individual branches of the economy.

In the administrative centres of republics, territories, and regions, and in large towns there are offices of the State Bank. In all towns and district centres there are branches of the bank which are subordinate to the corresponding area office. These branches of the State Bank issue credit to enterprises and economic organisations, carry out cash transactions arising from the State Budget and settlements between enterprises and economic organisations.

The Construction Bank of the U.S.S.R. is charged with the financing of capital investment. Its most important function is that of supervising the fulfilment of plan targets concerned with bringing new productive capacities and fixed assets into operation. The bank has subdivisions for financing and for long-term credit. For example, in its area offices there are departments for financing construction in the different branches of the economy.

In Union and Autonomous republics and in territory and regional administrative centres, area offices of the Construction Bank of the U.S.S.R. have been set up; district centres with a large volume of construction have branches of the Construction Bank; districts with a small volume of construction have authorised agents attached to branches of the State Bank.

Financial work in branches of the economy and of culture is carried on by the finance organs of ministries and government departments, which play an important part in the system of financial administration.

Within all Union ministries and government departments there are financial administrations or departments, which undertake financial planning and organise the financial work for the Ministry or government department as a whole.

The financial organs of ministries direct the financial activity of enterprises and organisations; they are directly con-

nected with the Ministry of Finance of the U.S.S.R. and its republican organs and with the State Bank, and they organise the transfer of payments in the approved amounts to state budgetary revenue. They carry out financial planning, finance capital investment and additions to the working capital of enterprises, distribute and redistribute working capital between enterprises, and supervise the expenditure of state resources.

The finance departments of enterprises and economic organisations occupy an important place within the financial administration of ministries and government departments. These departments carry out financial work, compile financial plans and supervise their implementation. The objectives of the finance departments of enterprises are to ensure the uninterrupted financing of the process of extended reproduction, the rational use of resources and the enforcement of a regime of economy, and to see that untapped resources within the enterprise are brought into use. With this aim in mind the finance departments exercise the necessary control over plan fulfilment in respect of profit and reductions in production costs; and over the punctual and complete settlement of accounts with customers and suppliers and with the financial and banking system.

If financial work in the enterprise is properly organised and control by the ruble is maintained over its economic and financial activity, this guarantees its success in fulfilling production and financial plans.

The financial apparatus is always being improved, and the economic and in particular the control auditing work of the financial administration is getting better. It is coming more closely to grips with the financial and economic activity of enterprises and economic and building organisations and construction projects; and is trying to achieve economy in the use of material and monetary resources. The Programme of the C.P.S.U. indicates that the number of personnel paid by the state must be gradually curtailed and the mass of the people must be involved in administration of the state as part of their civic duties. In the U.S.S.R. every encouragement is given to the initiative of the public in the control over expenditure of monetary and physical resources. This initiative is developing rapidly, and the work of the budgetary commissions of local Soviets is continuously improving.

PART TWO

DEVELOPMENT OF SOVIET FINANCE

Chapter 4

ORIGIN AND EARLY DEVELOPMENT OF SOVIET FINANCE

Finance in Tsarist Russia

The founders of scientific communism, Marx and Engels, pointed out that after victory of the proletarian revolution, the expropriation of the expropriators and successful construction of a new society would necessarily entail using the system of finance and credit at the same time as adopting other revolutionary measures. For the development of a socialist economy they regarded it as essential to centralise credit in the hands of the state and to introduce a state monopoly over all banking affairs; it was also essential to expropriate all property in land and to use the rent from land for state expenditure.

These principles were further developed in the writings of Lenin and in the resolutions of the Communist Party of the Soviet Union.

The Communist Party with Lenin at its head made considerable and flexible use of finance, on the one hand for making inroads into private capitalist property, and on the other for the planned carrying through of socialist transformation.

The victory of the October Socialist Revolution necessitated a new socialist financial system, radically differing from the finance of capitalist states both in content and in the part which it had to play in social reproduction.

On the eve of the Revolution the economy and finance of tsarist Russia was in a critical plight and on the verge of collapse. Economic paralysis, monetary chaos, an immense

budget deficit and vast foreign and internal debts—such were the features of the pre-revolutionary economy of tsarist Russia.

The First World War (1914-18), on which the rulers of Russia spent about 50,000 million rubles from budgetary revenue alone, showed that tsarist Russia was utterly unprepared to wage war and revealed the profound social contradictions and economic and financial weakness of the Russian Empire.

The finance of tsarist Russia reflected the economic backwardness of the country, its dependence on foreign capital, the high level of taxation of the working people and the growing cost of the army and police.

The main direction of the financial policy of the tsarist autocracy may be seen in the State Budget of those days.

To draw a veil over the true financial position and conceal the non-productive spending of immense sums on preparations for war, the ordinary budgets took no account of military expenditure. Emergency (military) budgets existed for this purpose. The overall State Budget was in deficit and it was only balanced by foreign loans and by increasing the revenue from the exchequer's alcohol monopoly and from the state railways.

Most of the revenue was raised by indirect taxation, the biggest proportion coming from the alcohol monopoly.

State loans were one of the sources of revenue for the emergency budgets. But the very high rates of interest greatly reduced the net income from this source. Thus, in the period 1909-13, the government raised loans totalling 4,100 million rubles, but 4,040 million rubles were taken up by interest and redemption payments.

The direction of government expenditure also indicated the parasitic nature of the political and economic system of tsarist Russia. Thus the most important items of government expenditure in the period 1909-13 were (in 1,000 million rubles):

1. Direct military expenditure 3.3
2. Upkeep of the state apparatus, the tsarist Court and the Department of Religious Affairs . . . 2.9
3. Cost of national debt 2.0
4. Current outlays on the railways, posts and telegraphs, overhead costs of the alcohol trade and economic departmets . . 4.6
5. National education 0.5

In addition, emergency (military) expenditure totalled 1,300 million rubles during this period.

It can be seen from these figures that an immense sum was spent on preparing for imperialist war, thereby enriching the bourgeoisie and landowners through the system of state contracts. Large sums were also spent on maintaining the bureaucracy and police and in interest on loans. But the expenditure on education was only a very small fraction of that spent on maintaining the Imperial Court, the Department of Religious Affairs, the courts, the civil police and gendarmerie.

The annual per capita expenditure, according to the estimate of the Ministry of Education for 1913, was only 80 kopeks though about three-quarters of the population were illiterate.

Local authorities were under the harsh tutelage of the central government and they were compelled to give priority to expenditure imposed from above (upkeep of the local organs of government, prisons, discharge of debts, etc).

The expenditure on education and public health by local authorities was limited by the relatively high expenses on matters of secondary importance, while the main resources of the central budget were taken up in maintaining the army and police machinery and repaying loans.

The colonial policy of tsarism towards national minorities also had its counterpart in financial policy. For example, tax payments were assessed at higher rates in the Ukraine, and state expenditure was cut back in Byelorussia, particularly on education and public health. The feudal character of the financial system was specially evident in outlying districts such as Bukhara and Khiva, where no budget at all was drawn up before the Revolution, whilst the tax system was markedly reminiscent of the Middle Ages. In other districts of Central Asia, and also in Siberia and the Transcaucasus, the system of direct taxation was typical of extremely backward colonial countries.

On the surface the financial position of the country just before the First World War seemed fairly favourable. The annual budget showed a surplus instead of a deficit, the Exchequer reserves at the beginning of 1914 being 514.2 million rubles.

In the war period the reserves rapidly ran down and did not save the budget from a mounting deficit. Whereas 50 per cent of budget expenditure was covered by current revenue

in the first year of war, the figure was 22.5 per cent in 1916 and only 15 per cent in 1917.

From the first days of the war the government discontinued the convertibility of treasury notes for gold and authorised the issue of treasury notes for military expenditure. The continuous rise in the quantity of bank notes issued turned them into state paper money. A rapid inflation began with all its attendant dire consequences for the people and the economy.

Using the serious economic and financial situation of Russia, foreign capitalists seized more and more of the economic key positions in the country. Her dependence on foreign states increased. In 1916 a large part of the gold reserve of the country totalling 331 million rubles, was shipped to Great Britain as security for war credits.

In Russia there was a continuous decline in industrial production, civilian transport and livestock, whilst the area under cultivation became smaller and trade turnover decreased. All these ruinous consequences of the war, interwoven with the financial crisis, led to disruption of the whole economy early in 1917. The country was on the brink of a catastrophe.

In February 1917 the working people of town and countryside, under the leadership of the Communist Party, cast off for ever the yoke of the autocracy. The Soviets arose–organs of the revolutionary democratic dictatorship of the proletariat and peasantry. But because the workers and peasants were not adequately organised or politically prepared, the Mensheviks and Social-Revolutionaries gained a majority in the Soviets at first. Their treacherous policy led to the transfer of power into the hands of the bourgeoisie, to the Provisional Government.

Under cover of demagogic slogans about the defence of freedom and the motherland the bourgeois Provisional Government continued the predatory imperialist war, accepting all the obligations of the tsarist government to its allies. This policy inevitably led to further deterioration of the economic position of the country.

War expenditure continued to increase at the same time as revenue declined, and the budget deficit increased unchecked.

Following the policy of the tsarist government, the bourgeois Provisional Government protected the interests of the

exploiter classes in every possible way. The bourgeoisie, landowners and kulaks (rich peasants) amassed immense wealth by unrestrained speculation in grain and manufactured goods. Instead of imposing progressively-scaled taxes on these incomes, the government again increased excises on consumer goods and postal-telegraph and railway rates.

In August 1917 the Provisional Government turned to the U.S.A. for financial aid. It expected to borrow 5,000 million rubles in order to suppress the revolutionary masses, consolidate its position and continue the war. The October Revolution forestalled this plan.

Financial Programme of the Communist Party on the Path of Revolution

Immediately prior to the October Revolution the financial programme of the Communist Party, like all its economic proposals, was based on Lenin's famous April Theses, which gave the Party and the working class clear guidance in the uncertain conditions of that period.

The April Theses called for confiscation of all landowners' land, nationalisation of all land throughout the country, and immediate merging of all banks into a single National Bank; the work of this bank was to be controlled by the Soviets of Workers' Deputies. The April Theses also made reference to the need for supervision of socialised production and distribution by workers' control.

The April Theses formed the basis for the decisions of the Seventh (April) Conference of Bolsheviks. The Conference noted the necessity of such measures as state control of all banks, which were to be amalgamated as a single central bank. In the resolutions adopted at the Conference it was declared that state control should extend to the insurance institutions and large capitalist syndicates [for instance, the sugar manufacturers' syndicate, "Produgol" (Coal Syndicate), "Prodamet" (Metal Syndicate) and so on]. A gradual transition to a more equitable and progressively-scaled system of taxing income and property was also planned.

The Sixth Congress of the Communist Party in July-August 1917 worked out the tactics for revolutionary struggle in the new political situation.

Noting the complete disorganisation of production, the disruption and deterioration of the transport system, the almost bankrupt financial position of the country, and the food crisis, mounting unemployment, widespread impoverishment of the masses, etc., which resulted from all this, the Congress stressed that only the dictatorship of the proletariat could save the country from catastrophe. The only way to avoid ruin was to stop the war and organise production in the interests of the people. This required intervention in the organisation of production, planned regulation of production, and introduction of proper distribution and exchange of products between industry and agriculture through co-operative and state food agencies. It was necessary to nationalise land and, above all, to expropriate the large landowners and nationalise and centralise the banks and syndicates, insurance companies and so forth.

Special attention was paid to workers' control which had to become a keen-edged weapon in the fight against speculation, sabotage and bourgeois attempts to wreck production—a most valuable means of preventing economic catastrophe. Workers' control was to cover all financial and banking transactions, with the aim of showing up speculative gains which the bourgeoisie hid from the people.

In connection with workers' control the Bolsheviks demanded the abolition of commercial secrecy. All transactions in industry, trade and banking had to be open for inspection. Lenin pointed out that the continuance of commercial secrecy gave capitalists an opportunity to conceal income and falsify accounts and returns; a handful of people could thus enjoy privileges to the detriment of the people as a whole, and embezzlers of state property and robbers would be sheltered.

Nationalisation of the banks undermined the supremacy of the bourgeoisie, shaking the capitalist system, and transferred an elaborate network for accounting and control into the hands of the proletariat—an important step in planning and regulating economic life.

To safeguard against financial collapse, the Communist Party proposed to repudiate foreign and internal state debts, whilst protecting the interests of small bondholders.

Serious attention was paid to necessary reform of the taxation system by the introduction of a property tax, a tax on property increments and high indirect taxes on luxury goods;

changes in income tax were also proposed along with effective inspection of income and property at the centre as well as in the localities.

Financial Measures During the Revolution

On October 25 (November 7), 1917 the greatest event in the history of mankind took place–the socialist revolution triumphed in Russia. On the same day the Second All-Russia Congress of Soviets opened, and announced the transfer of all power to the Soviets. From that moment the Communist Party started consistently to put into effect the economic and political programme of revolutionary transformation drawn up at its Sixth Congress.

Having regard to the mistake of the Paris Commune, which failed to seize the French National Bank, leaving the wealth collected in it in the hands of the counter-revolution, the Soviet government seized the Russian State Bank and instituted workers' control of the activities of all private banks.

The stubborn resistance of the private banks to workers' control and their attempts to issue notes independently, precipitated the decision to nationalise them; nationalisation was carried out by decree of December 14, 1917. Under another decree the safes were opened and all bullion and gold coin was confiscated. At this time the banks were all merged into a single People's Bank; this enabled the government to tighten control of production and prepare for the nationalisation of industry.

The nationalisation of land involved the winding up of the Nobles' Bank and Peasants' Land Bank which had been set up under tsarism to strengthen the position of the landowners and kulaks.

Systematically putting its economic programme into effect, the Soviet Government declared the pre-revolutionary foreign and internal loans of the state to be void.*

Another important measure at this time was the introduction of state social insurance. In tsarist Russia only 15 per cent

* At conferences in Genoa and the Hague the imperialists tried to obtain the Soviet Republic's recognition of the pre-war debts of tsarist Russia. But the Soviet Government presented counter-claims to the bourgeois states demanding compensation for damage to the country.

of the workers were covered by social insurance, and industrial accident and sickness benefits were very small. Much of the cost of insurance was borne by the workers themselves; their contributions amounted to 60 per cent of the sick-pay budget.

Immediately after the Revolution all factory and office workers were brought under social insurance. This enabled outgoings in all cases of disability to be offset by employers' contributions.

The state social security system was supplementary to social insurance.

The state monopoly of property and life insurance, set up in November 1918, was of great economic significance.

As a result of the abolition of commercial secrecy and of instituting workers' control, the incomes of private industrialists and traders were recorded much more fully. At the same time other forms of taxation which were vestiges of serfdom, for instance, the peasant land tax, were revoked.

The workers' and peasants' government was confronted with the problem of smashing the resistance of the overthrown exploiting classes and expropriating the immense profits which they had amassed. In this connection, in particular, it was necessary to use a system of levies.

The levies, as a special revolutionary measure of extracting the savings of the bourgeoisie, were carried out at the centre and in the localities by the organs of Soviet power.

To reduce state expenditure, the government appointed a special Committee of the Supreme Economic Council to cut down state expenditure and, in the first instance, administrative costs. This committee also laid down that bank loans to enterprises and organisations should be issued only for strictly defined purposes.

Early in 1918 the People's Commissariat of Finance drew up a provisional procedure for compiling and scrutinising half-yearly estimates (January-June 1918); this marked the first steps in organising the budgetary system of the Soviet state.

State control of the circulation and issue of money was supported by various measures: organisations and persons had to keep their money in bank accounts and accounts between economic organisations had to be settled through these

accounts; price committees were appointed for regulating profits in private trade; a state monopoly of the trade in precious metals was set up.

Lenin's Plan for Laying the Foundation of a Socialist Economy and Financial Measures

By signing the Brest-Litovsk Peace Treaty in March 1918, the Soviet state gained a breathing space from war which was used by the government for passing over to peaceful construction.

One of the most important political and economic objectives of the Communist Party and the state was to strengthen the alliance of the working class and the peasantry. This task could be accomplished through markets and trade by using the monetary system and adopting an equitable fiscal policy. For this it was necessary above all to strengthen the Soviet currency.

For monetary stability it was necessary to increase commodity circulation, intensify the taxation of capitalist elements, regularise the inflow of budget revenue and balance the budget. This is why the question of monetary reform posed by Lenin was so important. His proposals for reform were on the one hand directed against speculators, kulaks and the bourgeoisie, while on the other hand, they pursued the aim of utilising money as a tool for socialist construction.

At the All-Russia Conference of Representatives of Financial Departments of the Soviets in May 1918 Lenin pointed out the need to introduce taxation on income and property on an extremely progressive scale and with frequent dates for collection, so as to regulate the income and savings of the bourgeoisie. Furthermore, there was to be no laxity in recovering old taxes (taxes on small producers and duties on luxury goods, etc) and tax rates were to be further differentiated.

After its revolutionary dropping out of the war the Soviet state set about converting industry to peace-time production. Despite great difficulties, by the spring of 1918 the Army had been demobilised and industry put on a peace-time footing.

Besides the enterprises which had been run by the former War Department, the Soviet state came into control of many

nationalised enterprises in various branches of the economy and more were being nationalised continually. To render financial aid to these undertakings, since as yet they did not have approved estimates, a special fund of 2,000 million rubles was set aside from the State Budget. On authorisation from the Council of People's Commissars sums were provided from this fund to enterprises and also to the Supreme Economic Council.

Initially wages, raw materials and supplies for enterprises were financed without detailed estimates. In March 1918 the Supreme Economic Council was charged with the responsibility for seeing that all enterprises prepared estimates and that these were examined and submitted to the Council of People's Commissars. In the first half of 1918, along with budget grants, credits from the People's Bank (bills of exchange and credits on goods) began to play an important role. Thus enterprises were obtaining the means to carry on their business by outright grants and also on credit. The nationalised enterprises repaid the bank loans out of the proceeds of sales. The cash balances on current account were at the direct disposal of the enterprises themselves. The financial assistance covered the difference between receipts and outgoings.

This system was in essence the beginning of *cost accounting* and it marked the start of new forms of organisation and planning of socialised production.

In the second half of the financial year, by which time the majority of state enterprises had drawn up detailed estimates, a fund was set aside from the budget for covering the differences between receipts and outgoings.

Hence in 1918 the financial resources of industry were made up from (a) receipts according to estimates, (b) budget advances and funds, (c) payments by the Exchequer to cover planned orders, (d) loans from the People's Bank, and (e) proceeds of sales. Every state enterprise had to hold all monetary resources on current account in the People's Bank and to use the paper transfer system instead of cash payments.

The government also set up a special fund of 1,000 million rubles to support new developments in farming and its reorganisation along socialist lines. The agricultural producers' associations, which set a visible example to the peasants of the advantages of co-operative forms of farming, received

financial assistance from the state in the form of loans and grants. Large sums were also spent by the state on forestry and resettlement allowances.

The Communist Party, headed by Lenin, also embarked on a great plan of construction: great schemes of electrification and large-scale railway construction were planned. All facilities were also given for economic development of regions inhabited by national minorities. Thus by the decree of May 17, 1918, entitled "The Organisation of Irrigation Work in Turkestan", it was planned to carry out irrigation first in the Hungry Steppe. Fifty million rubles were allocated to these projects.

In its immense creative work on transforming society, the Soviet Government gave high priority to questions of cultural construction–the tasks of the cultural revolution. The Soviet government introduced the most advanced labour legislation, organised a widespread system of social insurance and social security, and expanded the construction of schools, hospitals and sanatoria, scientific institutes, etc.

In carrying out its economic and financial plans the Communist Party had to overcome the violent resistance of the "Left Communists" who opposed all measures for improving accounting and financial control, taxation and the building up of financial strength.

Owing to the serious state of the economy, inflation and the teething troubles in setting up the financial machinery, the first budgets of the socialist state had to be on a half-yearly basis. The first half-yearly budget for January-June 1918 allowed for a large deficit. But it reflected new directions of expenditure and new sources of income, quite different to the budgets of the tsarist and Provisional governments. Though it still provided for heavy expenditure on military needs, it was already making grants for the restoration of industry and mechanisation of agriculture, as well as setting aside large sums for cultural needs. In the second half-yearly budget (July-December 1918) the Soviet Government planned very large appropriations for economic development and new railway construction.

The Constitution of the R.S.F.S.R., adopted at the Fifth All-Russia Congress of Soviets in July 1918, laid down the main principles, aims and tasks of the financial policy of the Soviet Government.

As a whole the financial policy at the start of the transition period was directed at expropriation of the bourgeoisie and establishment of socialist principles of production and distribution.

The Civil War and foreign military intervention made it impossible to implement Lenin's plan for socialist construction completely. The foreign military intervention, supported by the counter-revolutionary actions of the enemies of Soviet power within the country, brought the interval of peace to an end.

Finance During the Civil War and Foreign Military Intervention

In the rigorous conditions of this period the Soviet state was forced to adopt very severe economic and financial measures. Centralised direction of the economy enabled money, labour and material resources to be mobilised more rapidly for the struggle with the external and internal enemies. The Soviet state took all industry under its control, even including very small firms, and through the Supreme Economic Council it established production plans and plans for the supplies of enterprises, as well as for the distribution of their output both to the army and to the rear. A monopoly of the grain trade was instituted, private trade in grain was prohibited, and in 1919 surplus requisitioning of foodstuffs was introduced to meet urgent needs at the front, among the urban population and in industry.

The industrial output of state enterprises was at the disposal of the Supreme Economic Council and was distributed by this body directly and not through the market. In consequence, enterprises and organisations were largely financed on the basis of budget estimates, and this became the typical relationship between industry and the state.

Owing to the economic plight of the country and the acute shortage of foodstuffs under the conditions of a continually depreciating currency, it became necessary to impose a tax in kind, the whole burden of which was to fall on the kulaks. The tax was to assist in meeting food requirements of the state, increase budgetary resources and limit the speculative income of the kulaks.

On October 30, 1918, the All-Russia Central Executive Committee passed the tax in kind legislation. The assessments were related to the size of the family, the sown area in dessiatines* and the head of cattle. Exemption was granted to all households farming only to meet their own needs, i.e., poor peasants and most of the middle peasants. This tax, intended for confiscating the surpluses of the village bourgeoisie, did not affect the interests of those working peasant households who had already made their surpluses available to state procurement agencies.

But the situation in the countryside at that time, and also the inadequacies of the financial machinery, prevented the tax in kind from being used on a large scale. The surplus-requisitioning system was therefore introduced instead.

This system instituted by decree of January 11, 1919, meant that peasants were compelled to deliver all surpluses of foodstuffs and fodder in accordance with a plan which was approved centrally in each territorial administrative unit. This plan was laid down as a specified instruction to every peasant household. In the first instance the system of removing all surpluses only affected kulaks and prosperous peasants and the amount fixed for the middle peasantry was adapted to their means. A portion of the requisitioned produce was compulsorily set aside for the benefit of the village poor, who supported and helped Soviet authorities and procurement agencies in carrying out the requisitioning.

The requisitioned produce was paid for at fixed prices in depreciated paper money, which in fact served as a receipt for a loan in kind.

In the conditions of a barter economy credit was ceasing to exist, and in order to stop duplication of work by the People's Bank, the People's Commissariat of Finance and the savings banks, it was necessary to create a unified system for cash payments and accounts. During 1919 the treasury departments were merged with the offices of the People's Bank. In January 1920 the People's Bank was abolished as an autonomous credit institution by government decree.

With the acute shortage of goods and rapid depreciation of money, monetary wages became less important and more

* 1 dessiatine = 2.6996 acres.–*Tr.*

and more labour was paid for in kind. In 1920 factory and office workers and their families no longer had to pay rent or for municipal services.

The trend towards a barter economy eliminated the system of state insurance. Free state aid (as a rule, in kind) was provided to poor peasant households in the event of natural disasters.

All accounts between state enterprises were settled by book entries without the use of cash. Money was thus used only as a means of accounting, as a form of check on the activity of enterprises. Yet the need for money could not be ignored altogether since the People's Commissariat of Food continued to pay prices fixed by the state for the manufactures of nationalised industry under the Supreme Economic Council, and also for foodstuffs procured from the peasants.

The monetary needs of the Soviet state were partially covered by revenue from taxation of non-working people, but mainly by the issue of paper money. This led to further inflation, though at the same time, with comparatively large material and food resources in the hands of the state, it also hit the speculators by devaluing their savings.

The Civil War and foreign intervention required large resources for equipping and maintaining the Red Army. The means could not be obtained by conventional state revenues. Therefore, by decree dated October 30, 1918, the Government introduced a lump-sum emergency revolutionary tax amounting to 10,000 million rubles. The aim of the tax was to confiscate the savings of the capitalist elements in town and countryside. The tax payable in each gubernia (province in tsarist Russia) was apportioned between towns, uyezds (districts) and volosts (subdivisions of districts). The volost Soviets along with the Poor Peasant Committees determined the scale of tax on individual households.

By the end of 1920 the revenue from this emergency tax amounted to about 1,600 million rubles. The large deficiency is explained by the weakness of the financial machinery, the inadequate explanatory work among the population and the intrigues of hostile elements, which frequently led to misapplications of policy in collecting the tax and reduced its effectiveness.

But further extension of barter made taxes almost valueless. From the beginning of 1921 onwards the collection of money

taxes was discontinued. At this time the local budgets were merged into the state budgets, and the expenditure of local Soviets was covered by state funds on an estimate basis.

Finance in the Period of the New Economic Policy

The end of the Civil War meant passing over to the restoration of the economy, to the wider use of commodity-money relations as the main economic relation between industry and agriculture.

Accordingly, the Tenth Congress of the Communist Party took extremely important decisions regarding the replacement of the surplus-requisitioning system by a tax in kind, and adopted the New Economic Policy (NEP), the main principles of which were worked out by Lenin. In the period of the New Economic Policy all measures which had been forced upon the Party during the Civil War and foreign intervention were revoked, and the transition was made to monetary trading.

The lower total amount of the tax in kind, as compared with requisitioning, allowed the peasants, after they had settled with the government, to sell their remaining surpluses on the market; this enabled them to buy the industrial goods necessary for the development of their farms. The total tax assessment and the period allowed for payment were fixed prior to the start of field work in the spring, thereby enabling the peasantry to take changed conditions into account in their farming activities.

To control the market it was necessary to expand commodity circulation to its maximum and to establish a stable currency. Accordingly, the direct allocation of industrial products was stopped; goods and services were paid for in money; accounting, financial estimating and production costing were resumed.

In order to have very large monetary resources directly at its disposal, the Soviet Government had to build up its financial strength and, more particularly, the budget.

"The task of strengthening Soviet finance is one of the most difficult," wrote Lenin, "but it now stands in the front rank and unless it is solved it is impossible to make signif-

icant advances either in protecting the independence of Soviet Russia from international capital, or in the economic and cultural development of the country."*

The Eleventh Congress of the Communist Party in 1922 noted that the special financial problem in the period of restoration and development of the economy was the struggle against inflation and for a stable ruble as the prerequisite for the strengthening and safeguarding of the economy. Above all, this required the development of industry by every possible measure, and especially of the leading industries; a steady rise was required in labour productivity throughout the economy, along with continuing expansion of trade and elimination of the budget deficit.

The Congress paid great attention to tax policy. In this period taxes had the aim of maximising revenue for economic development and also to regulate the incomes of capitalist elements. Besides direct taxation, the Congress decided as a temporary measure to use a system of indirect taxation.

Other sources of revenue of the State Budget were to be receipts from foreign trade (through customs duties), forestry royalties, income from making use of state property, savings of the population through loans and savings banks, etc.

Implementing the decisions of the Eleventh Congress, the Soviet Government reduced administrative costs, simplified the organisation of the state administrative machinery and restored state social insurance and state property insurance.

The social insurance contributions paid by state, co-operative and private enterprises and organisations made up the social insurance budget which was used to carry out appropriate measures. As regards small producers and handicraft workers, social insurance was organised through mutual-aid funds created in co-operative handicraft societies (artels). The funds in respect of property insurance were built up from the premiums of the insured–enterprises, organisations and private persons. All this was instrumental in increasing the budget finance for economic development.

In July 1921 the Government authorised the Supreme Economic Council and its authorities in the localities to let small enterprises to co-operative organisations and individuals, or to leave them under the administration of local Soviets

* Lenin, *Collected Works*, Russ. ed., Vol. 33, p. 342.

if they were paying their way. This renting system enabled the state to concentrate its efforts on restoring large-scale industry and increasing budget revenue, whilst also ensuring supervision over the volume and type of production of the rented enterprises.

The development of commodity-money relations necessitated the organisation of a system of short-term credit. The State Bank, instituted in 1921, became the organisation for short-term credit and was a unified national centre for accounts and currency issue.

For long-term credit a number of long-term investment banks were founded–Industry and Trade Bank, Agricultural Bank, Municipal Bank.

In the countryside a food tax was introduced, made up of several taxes in kind on staple produce–grain, potatoes, meat and industrial crops. The total amount of tax paid, revaluing the amount of agricultural crops collected in gold rubles at prewar prices, was less than the tax liability of the peasantry in tsarist Russia. For example, the annual per capita assessment was 11 rubles 71 kopeks under tsarism, but only 3 rubles 71 kopeks under the food tax. Even bearing in mind the lower earning power of agriculture in 1921-22, the taxation of the peasantry was only half that under tsarism.

The multiplicity of items included in the first food tax was due to the need to supply the urban population and industry with the agricultural products which they required. But with the development of agriculture, the taxes became a brake on trading relations, and prevented the peasantry from planning their crops according to the market demand.

The importance of taxes was not only that they yielded a very large budget revenue, but also that they served as a tool for controlling accumulation in the small trade and private capitalist sectors. This made it essential to employ the many different forms of taxation.

Along with this variety of ways of siphoning incomes and money accumulation into the budget, some of the taxes were also multiple in the sense that, for instance, tax would be paid on goods in the wholesale and retail trade as well as by the producer.

This multiple taxing was mainly due to the fact that in the conditions of rapidly changing market situation and of

imprecise planning of prices, some of the net income of the state productive sector was earned in state and co-operative trade as well as in industry. Furthermore, this multiple taxation made it possible to discover the incomes of all proprietors of private businesses, thereby speeding up the process of restricting and displacing them. Highly progressive and more sharply differentiated tax scales were used with respect to private undertakings.

To tighten control over the incomes of certain groups of the population and, in the first instance, the incomes of business proprietors, in 1922 the Soviet Government introduced an income and property tax. The tax was intended to cover all sources of income and to be differentiated both according to economic sectors and in regard to particular groups of the population; rates of tax were to be progressive, as laid down in a clearly established scale. The assessments were split into two payments–*basic* and *supplementary*.

The *basic income tax*, which covered the broad strata of tax payers, was assessed at fixed rates so as to lighten the burden as much as possible on the earned income of working people. The *supplementary tax* was progressively scaled (for amounts payable in excess of basic tax). All income exceeding a certain limit was taxed at rates which depended on the administrative zoning of the locality and the nature of the income (in 1924 still higher rates were imposed on income not earned through work).

From 1923 onwards state and co-operative organisations also started to pay income tax. But the structure of the tax on socialist undertakings differed considerably from the taxation on enterprises in the non-socialised sector. Thus state enterprises paid 10 per cent of their profits as income tax, whilst part of their net income was also paid into the budget in the form of a deduction from profit.

Besides direct taxes, during the NEP years a system of indirect taxation was used in excise form. These excises were charges included in the purchase price of consumption goods and they were paid when the goods were bought. This form of taxation was arranged so that tax would fall most heavily on goods consumed by people in higher income brackets.

As the standard of living of the working people improved, their higher incomes created the economic conditions for larger personal savings. By loans and through savings banks

the state attracted these personal savings for socialist construction. Many internal loans were floated. Taking the depreciation of money into account, the first state loans were issued as loans in kind (two grain loans, of 10 million poods,* and of 100 million poods of rye, and one sugar loan), though the bonds were initially sold for cash. These loans in kind were a phase in the transition to monetary loans.

The loans in kind were raised through the State Bank system which adjusted the price at which the bonds could be purchased to the average market price for rye; this arrangement tended to offset the depreciation of money. Insofar as the bonds of the loans in kind were accepted from the peasantry in lieu of their liabilities under the foodstuffs tax, the flow of agricultural produce onto local markets increased.

The loans in kind were only a very short-term source of revenue. Their primary economic importance was that they assisted in reducing the issue of paper money, since the sale of the bonds helped to take the depreciated money tokens out of circulation.

The first monetary loans were aimed mainly at the urban population. They were long-term interest-bearing loans calculated in terms of the gold ruble, and were repayable at the rate of exchange prevailing on the day of payment. This safeguarded the bond holders (mainly factory and office workers) against inflation. Proprietors of businesses who declined to take up the loans were compelled to subscribe on a scale appropriate to their income tax ratings.

The increase in agricultural production created the economic conditions for further growth of peasant incomes, thereby enabling monetary loans to be raised in the countryside. As an incentive to the peasants, the bonds were accepted in payment of taxes. During 1924, 1925 and 1927 three peasant "lottery" loans were floated, and successfully realised.

In three years (1922-25) state loans brought 396 million rubles into the State Budget, this being 7.5 per cent of all budget revenue.

The growth of personal incomes also warranted the provision of deposit facilities. In this connection the ordinance of the Council of People's Commissars of December 26, 1922,

* 1 pood = approx. 36 lbs.—*Tr.*

set up state savings banks under the People's Commissariat of Finance.

One of the main tasks of the savings banks in their first year was to safeguard wages against depreciation of money. This was achieved by conducting all deposit and withdrawal operations in Treasury notes, but calculating the value of the transaction in terms of the quoted gold ruble. This attracted depositors, built up stable balances and, in turn, led to the setting up of a network of savings banks. On March 1, 1923, there were only six savings banks, but on October 1, 1925, their number reached 7,362.

The creation of a stable currency and its use in the economic turnover was the direct result of the planned development of industry, and also of the growth of agricultural production, which was associated with an increase in marketable agricultural produce and greater peasant purchasing power.

The currency reform had immense political and economic significance. It gave the state a sound currency, increased real wages and created a sound basis for the expansion of commodity circulation between industry and agriculture.

Great attention was paid to agriculture. As the result of agricultural and credit co-operation, a sound taxation policy, a pliant approach to the planning of prices and large budget appropriations, the sown area, average yields and the head of cattle soon reached the pre-war level.

Chapter 5

SOVIET FINANCE IN THE PERIOD OF SOCIALIST RECONSTRUCTION OF THE ECONOMY OF THE U.S.S.R.

Objectives and Sources of Finance of Socialist Industrialisation

The restoration period was coming to an end. But in spite of the great successes in economic development, the Soviet economy was still agrarian in nature.

At the Fourteenth Congress (1925) the Communist Party adopted a resolution in the light of Lenin's recommendations

acknowledging that industrialisation on the basis of priority development of heavy industry was the only possible way of building socialism.

Many urgent problems had to be solved by the financial system in order to begin industrialisation with the development of heavy industry; high rates of its development had to be sustained at the same time as rendering maximum financial assistance to the emerging system of collective farms. Above all it was necessary to find the financial means for industrialisation.

For the Soviet state, the capitalist way of industrialisation was fundamentally unacceptable, presupposing the prior development of light industry, and such sources for carrying it out as levies, robbery of colonies and foreign loans which put the country in thrall. The Soviet state had to find its own sources of money accumulation within the country.

Expropriation of the landowners and capitalists, elimination of private ownership of the means of production and transfer of these means into the hands of the proletarian state made it possible to mobilise very great resources for socialist industrialisation. The most important sources of revenue were the proceeds of nationalised industry, foreign trade, state industry, state internal trade and the banking system.

The annulment of the debts of the tsarist and Provisional governments assisted in accumulating means for economic development. The peasantry, released as a result of the October Revolution from their land purchase and rent payments, also played their part in financing socialist industrialisation.

Another source of finance was the mobilisation of personal savings by floating internal loans and attracting deposits in savings banks.

To encourage enterprises to reduce their production costs, a part of their savings from economies in excess of the plan was placed at the disposal of the director. These sums could be used to expand production and improve the workers' amenities, or for bonuses. At the end of 1927 directors of enterprises were granted the right on the delegated authority of the trust to negotiate agreements for supplies and sale of products, to conduct credit transactions and to have a separate current account at the bank. The granting of greater independence in the day-to-day running of enterprises was

accompanied by a gradual changeover to full cost accounting at enterprises. The experience gained at enterprises where cost accounting was instituted showed the system to be highly efficient and advantageous; it was fully taken into account when industrial administration was reorganised.

In accord with the decision of the Central Committee of the Communist Party dated December 5, 1929, and entitled "The Reorganisation of Industrial Administration", the enterprise became the basic unit of economic accounting in state industry. Every enterprise had to have an independent plan of production and finance. The proceeds from the sale of its products, less the cost of production and expenses of sale, produced the net income of the enterprise. For the purposes of stimulating successful work, the enterprises were allowed to keep some of their savings from reducing production costs.

Placing enterprises (as well as trusts) on a cost-accounting basis created the conditions for extending and improving the system of economic planning. It also elevated the function and status of the finance of the enterprise as an important factor in the accumulation of funds. In turn this increased the budget revenue received from the socialist economy. Thus, in the Second Five-Year Plan (1933-37), the revenue from state enterprises was 4.5 times the corresponding amount in the First Five-Year Plan.

The Communist Party, following the behests of Lenin, developed and strengthened heavy industry in every possible way. The priority development at high rates of industries producing the means of production was accompanied by a growth of their accumulations (profits).

In the Second Five-Year Plan a new source of accumulation arose and rapidly grew–the net income of industries producing the means of production (in the first period of industrialisation the main sources of finance had been light industry, agriculture and sundry budget revenues). Increasing accumulation in heavy industry was the result, above all, of technical re-equipment of industry and the growth of labour productivity. Labour productivity increased by 41 per cent in the First Five-Year Plan, and by 82 per cent in the Second.

During the drive for greater accumulation in industry, special importance was attached to reducing the prices of industrial goods. The systematic reduction of prices was instrumental in stabilising the ruble and increasing the real

wages of factory and office workers and the incomes of the working peasantry; the policy also furthered the development of state and co-operative trade, displacing private capitalist elements from commodity circulation.

The successful struggle for the reduction of production costs and improvement of quantitative and qualitative indices of the work in industry was also assisted by the new system of profit distribution introduced in 1927. The first charge on profits was income tax. The balance was distributed as follows: 10 per cent to the welfare fund for factory and office workers, 10 per cent to the reserve fund (until it reached 50 per cent of the statutory fund), 10 per cent to the special state fund for long-term credit in the Industry and Trade Bank and 25 per cent to the fund for expanding the enterprise. Of the expansion fund, 50 per cent was deposited in the Industry and Trade Bank as a long-term deposit of the trust. The other 45 per cent of the profits of the enterprise (the trust) was remitted to the State Budget.

In 1930 the long-term credit funds were cancelled and the system of profit distribution was again changed. Part of the profit was left with the enterprise for its own planned requirements (expansion of production and the working capital, etc.). The whole balance was remitted to the State Budget.

The Communist Party assigned a decisive role to the State Budget in mobilising the means for socialist industrialisation and ensuring high rates of industrial expansion.

The State Budget collected the accumulation of socialist enterprises and organisations, the taxes on individuals, the proceeds of loans, the idle balances of insurance institutions and savings banks, and marshalled this revenue for economic development.

The total expenditure from the U.S.S.R. State Budget (including local expenditure) was 430 per cent of the 1927-28 level in 1932, but the outlay on the national economy was 800 per cent of that level (investment in industry was 1,380 per cent of 1927-28, investment in heavy industry and electrification was 1,710 per cent).

By allocating the bulk of capital investment to industries producing the means of production, the fixed assets of heavy industry in the First Five-Year Plan were increased by more than 150 per cent. The expenditure on industrial development continued to grow during the Second Five-Year Plan. For this

purpose the sum of 7,540 million rubles was allocated from the budget, which represented 20.4 per cent of budget expenditure; this investment included 62.2 million rubles on further development and technical improvement of heavy industry. These very large appropriations gave scope for the build-up of fixed assets in industry which outstripped the rates of growth in the other branches of the economy. The fixed assets of industry increased 6.4 times compared with 3.5 times throughout other branches of the economy.

In the Second Five-Year Plan, relying on the newly created enterprises of heavy industry, it became possible to commence the re-equipment of other branches of the economy, which involved an increase in budget appropriations for these purposes. At the same time, appropriations for social and cultural amenities and national defence were increased.

Most of the revenue of the State Budget came from the socialist economy, principally from the light and foodstuffs industries.

The capital goods produced in heavy industry were priced at a level below cost, though covering production costs and allowing for some profits. But prices charged for consumption goods, however, reflected the total value. Most of the money accumulation in industry was therefore in secondary industries not producing the means of production. These industries transferred their gains into the budget in the form of income tax, deductions from profit, tax on small producers, excise duties (purchase tax), and later also turnover tax.

Necessity and Economic Prerequisites of the Financial Reforms (1929-32)

Successes had been achieved in industrialisation, and private capitalist elements had been restricted and displaced in town and countryside; the socialist foundations of the economy were sounder, and direct planning of production and distribution was developing. All this both necessitated and established the economic prerequisites for a number of reforms affecting the management of industry, the credit system and all the relations between the financial system and industry.

The system whereby economic organisations extended commercial credit to each other had been widespread in the first stage of NEP, but in the new conditions it adversely affected cost accounting. Enterprises covered up their underfulfilment of plans by credits from outside organisations; the system of control by the ruble through the state banking system proved to be ineffectual. Direct relations between economic organisations and the State Bank were urgently necessary.

The old credit system was replaced on the basis of the decree of the Central Executive Committee and Council of People's Commissars of the U.S.S.R. dated January 30, 1930, entitled "Credit Reform". Commercial credit was abolished and replaced by direct bank advances. The State Bank now undertook all the short-term credit finance in the economy. In addition the credit reform aimed at strengthening the position of the State Bank as the accounting centre of the country.

The implementation of the measures envisaged by the reform was intended to strengthen the system of cost accounting and to reinforce financial control of the economy.

The reorganisation of management of industry and the credit reform revealed the need for a radical change in the way of collecting revenue from the socialised sector of the economy during the NEP period. There were too many forms of tax liability and, moreover, taxes were levied too many times at many intermediary stages.

The tax reform of 1930 reconstituted the payments of state enterprises into two large streams of revenue–turnover tax and deductions from profit. Co-operative enterprises paid turnover tax and income tax. The turnover tax unified 53 different taxes which had existed prior to the reform, including the tax on small producers, excises, forestry charges and so on. Deductions from profit combined five previously separate payments, income tax in particular.

The new system of payments from socialised industry meant that finance was readily available to meet the requirements of the state as and when they arose, and at the same time the funds could be better provided by the system of cost accounting at enterprises.

The fiscal reform laid down the following main principles governing the payment of turnover tax.

First, that the tax would be paid once only, and by only one intermediary. This was of great importance for establishing fixed prices. It had only become practicable to apply the tax in this way because (a) the state was now able to set each enterprise clear planned tasks in respect of output, production cost, profitability and selling prices; (b) private traders had been displaced from the goods turnover; (c) the system of tax payments had now been unified by the fiscal reform.

Second, imposition of a rate for each branch of industry (the turnover from each industrial trust's sales was liable to a single average rate).

Third, centralisation of liability, implying that the industrial trusts, and not the individual enterprises, paid turnover tax.

Thus, the effect of the fiscal reform was that direct planning of prices, quantity and varieties of products, and production costs, was reinforced by planning the accumulation of moneys: time limits and norms were specified for paying part of the accumulation into the budget.

The experience gained in implementing the tax reform revealed shortcomings in this system of collecting budget revenue from socialist enterprises and organisations.

Each trust had to settle its budget liability at a single rate of tax on a turnover which, in respect of profitability, differed for different kinds and grades of product. But this difference, with a single rate of tax for each trust, meant that all the kinds of output could not be equally profitable. Some products were extremely profitable, whilst others were extremely unprofitable.

The turnover tax was assessed on planned turnover, and not on actual turnover; corresponding amounts were automatically transferred by the State Bank from the trust's current account to the State Budget.

The exreme centralisation of the collection of turnover tax deprived local financial bodies of any possibility of supervising the production and wholesaling activities of the enterprises, while automatic transfer to the budget did not promote the improvement of cost accounting.

The system of deductions from profit was likewise based on planned profits. Here industrial enterprises paid almost all their profit (81 per cent) to the state budget, except for the

provisions for incentive funds. This situation gave enterprises no inducement to fulfil all their planned tasks and sometimes part of the working capital of enterprises was collected as tax.

In 1930-31 the system was modified. Enterprises were authorised to sell their output themselves, and this made them liable for making turnover tax payments. Instead of a standard rate of turnover tax for each industry, a rate was fixed for each commodity, which was approved when the prices of manufactured goods were set. This led to the abolition of centralised system of collecting the tax, and to the system of automatic transfer. Turnover tax, assessed on actual turnover and paid directly by the enterprises, was placed under the control of local financial bodies.

At the same time, the decentralisation of the collection of turnover tax was in the interest of local budgets: deductions from the revenue from turnover tax were retained in the local budgets, thereby stimulating the interest of local bodies in the fulfilment of economic plans.

As regards deductions from profit, the modifications made in the system were directed at differentiating the rate of charge, in view of the need to leave part of the profit in the enterprises for expanding production. The minimum rate deducted from profit for the budget was fixed at 10 per cent. This percentage was applied even to enterprises which did not cover their expenses on expanding production out of the profit which was left to them. This was to facilitate control of enterprises in the drive to fulfil plans for reducing production costs. The percentage deduction was assessed on actual profits.

In 1932 a tax was imposed on services (as opposed to goods) as a modified form of turnover tax. The aim of this tax was to mobilise into the budget some of the income accruing to enterprises from services rendered.

After the introduction of turnover tax, state enterprises no longer had to pay insurance contributions covering losses from natural disasters. Such losses became chargeable to the State Budget.

The tax reform also affected the revenues from state property. The royalties for use of forests and mineral wealth were unified in the turnover tax. Receipts from fishing rights (amounts payable for fishing by collective fisheries and private persons) remained separate, as well as fees for working

peat and certain minerals. Later a payment was levied for felling timber.

In the period of the all-out construction of socialism the Soviet tax system was employed by the state for eliminating capitalist elements. The tax liabilities of the private sector were changed and, in particular, income tax rates were far more progressively scaled.

Thus the financial reforms of 1929-32 reflected the economic processes taking place in connection with socialist industrialisation of the country and collectivisation of agriculture. They were instrumental in strengthening the Soviet financial system.

The Soviet state widely used credit methods of mobilising the savings of the population in the form of state loans and savings bank deposits as further sources of income for socialist construction. During the years of industrialisation several loans were floated, including three industrialisation loans. These loans were raised from the public by instalments.

The reform of the state loans system in 1930 was of great importance. As a result all loans which had been floated in preceding years were consolidated and long-term credit became available to the state.

The successful issue of state loans was clear evidence of the high patriotism of the Soviet people and the unity of interests of the state and people.

The business of the savings banks was considerably expanded.

Organisation of the System of Financing Socialist Industrialisation

The credit system played a vital part in the execution of the plans for socialist industry.

In the first years of industrialisation capital investment and some of the other outlays of state industrial enterprises were carried out mainly by bank credit. This enabled the state to strengthen its control over the use of resources, and it made it possible for the banks, in advancing loans, to find out the enterprises' own resources which could be channelled into construction. The organisations receiving loans and coming within the sphere of bank control had to ensure that construction projects were commissioned on time, that the loans

were repaid in the stipulated period and that the work was done economically. For this reason the long-term credit system was also used in this period as the channel through which budget allocations for capital construction were made available.

In 1926 a department of industrial long-term credit was opened in the Trade and Industry Bank. But by 1928 the scale of investment already required reorganisation of the Trade and Industry Bank and it became the Industry and Electrification Long-Term Credit Bank. The resources of this bank consisted of the special funds set aside from deductions from industrial profits, much of the depreciation funds and budget appropriations. The biggest proportion of the funds for long-term credit came, however, from the deductions from the profits of light industry; in 1926-29 about 70 per cent of all funds came from this source. Approximately 75 per cent of depreciation funds also came from light industry (principally textiles). The funds mobilised by the bank were used mostly for financing heavy industry.

From 1929 onwards all capital investment in industry was financed through the budget on a non-repayable basis. The long-term credit funds were liquidated and all industrial debts to the Long-Term Credit Bank were written off.

In 1934 the other branches of the economy went over to the system of financing capital construction by non-repayable grants from the budget. Long-term credit was retained for collective farms and co-operative organisations; it was more appropriate for the group form of ownership. This procedure was also followed in subsequent years.

Thus outright budget grants were introduced in industry, and this was followed by gradual extension of this principle throughout the economy. Meanwhile capital investment was continually growing and greater efforts had to be made to reduce building costs. All this required special investment institutions within the People's Commissariat of Finance, organised separately for each branch of the economy. On May 5, 1932, the Central Executive Committee and Council of People's Commissars of the U.S.S.R. passed the decree "Organisation of Special Long-Term Investment Banks".

Accordingly, the Industry and Electrification Long-Term Credit Bank was converted into the Finance Bank of Capital Construction in Industry, Transport, Posts and Telegraphs

(Prombank), and the All-Russia Co-operative Bank became the Co-operative Capital Construction Finance Bank (Vsekobank); the Socialist Agriculture Finance Bank (Selkhozbank) and the Municipal and Housing Construction Finance Bank (Tsekombank) were also established.

These banks handled all the monetary resources available for capital investment; at the same time they carried out accounting in respect of construction works and checked that funds were used for the purposes specified and on the basis of actual fulfilment of work schedules.

Functions of Finance in Preparing and Carrying Out Socialist Reshaping of Agriculture

The successes in the industrialisation of the country created all the necessary conditions for solution of the most difficult problem which had arisen since the working class had seized political power—socialist transformation of agriculture based on producer co-operation between millions of individual peasant small-holdings. Socialist transformation of agriculture also implied the mass organisation of large state farms.

The Soviet Government furnished agriculture with great financial aid. Even in 1918 a number of measures were taken to stimulate the formation and development of agricultural associations, with the object of showing the peasantry the advantages of large-scale farming over individual small-holdings.

In the years of restoration of the national economy, the Communist Party and the Government, using fiscal and credit methods on a large scale, systematically brought Lenin's co-operative plan into being. Emphasis was laid on development of co-operation in the countryside in order to achieve a gradual transition from purchasing and marketing co-operation to co-operation as producers. Especially great attention was paid to the development of agricultural credit co-operation, attracting the poor and middle peasantry. In entering into credit associations and loans-and-savings associations, the poor peasants were exempted from their share contributions, or their payments were deferred. Poor peasants and collective farms obtained long-term loans on preferential terms from special funds.

Large sums were assigned from the budget to agricultural development. Part was allocated to the statutory fund of the Agricultural Bank, whilst the rest was used to extend credit to the peasantry.

From 1926 the system of forward-contracting was widely used for state procurement of agricultural produce. In accordance with the terms of the contract the procurement organisations gave advances to agricultural societies, and in necessary cases also provided seed and fertilisers; they also undertook to provide manufactured goods in return for the sale of agricultural produce. The development of forward-contracting led to widening of the producing functions of agricultural co-operatives and stimulated the extensive cultivation of industrial crops required as raw material for industry.

The state farms played an important part in the collectivisation of agriculture. They were intended to be centres where the peasantry could see the advantages of large-scale highly mechanised production.

Budget appropriations towards the organisation and development of state farming amounted to 10.1 million rubles in 1927-28, to 4,200 million rubles in the years of the First Five-Year Plan, and to 10,100 million in the Second Five-Year Plan (at the prices ruling in that period). During 1927-28 and 1929-30 the state farms received 18,000 tractors with total capacity of 350,000 hp.

In the preparatory period and during socialist transformation of the countryside tax policy had to assist actively in the processes of collectivisation; to restrict the capitalistic tendencies in the small-scale individual farms and to assist in restricting and displacing capitalist elements.

In accordance with these aims the agricultural tax was gradually reorganised and the income basis strengthened. As early as 1924-25 livestock had become one of the main taxable objects (besides arable land) in order to take the economic strength of peasant farms into account more fully.

In 1926 the agricultural tax was reinstituted; the principle of payment according to income was strengthened. Tax liabilities started to be assessed on the total income of the peasant household from all lines of farming; total income was determined according to average standard earnings per dessiatine of sown area (taking into account the sown area of each crop) and per head of livestock. Standard earnings were fixed in

respect of republics, with further differentiation between particular regions.

The subsistence peasant households were allowed concessions; for instance, 25 per cent of peasant households were exempted from tax altogether, and in 1927 in commemoration of the 10th anniversary of the October Revolution, this was raised to 35 per cent. Especially big concessions were given to collective farms.

From 1928 kulak farms started to be assessed individually on actual income so as to assist in restricting and displacing capitalist elements in the countryside. On the other hand, the Communist Party and Soviet Government gave every possible support to working peasants, and especially to the collective farms.

Mass collectivisation and the scope which this gave for eliminating the kulaks as a class, required further modification of the agricultural tax. In 1930, in order to increase the accumulation of funds within collective farms, the agricultural tax started to be assessed at a standard non-progressive rate proportional to income. Improvements in records and statistics in the collective farms made it possible from 1931 onwards to assess taxes on the basis of their recorded income rather than estimated income.

The collective farms received supplementary concessions. Thus in the two years 1930-31 and 1931-32, the income from socialised livestock farming was not taxable, and this stimulated the growth of collective-farm flocks and herds. Various industrial crops were also exempt from tax depending on the specialised cultivation in particular regions. Members of collective farms paid no tax at all on the income they received in return for work-day units. The amount of tax payable was assessed at progressively scaled rates according to total earnings. Kulak farms were taxed at higher rates.

Peasant small-holders who were not members of collective farms obtained quite high incomes from non-agricultural work and from the sale of produce on the market, and these earnings could not be taken into account in assessing the liability for agricultural tax. In view of this a single levy was imposed on private farms in 1932. The rate of taxation was differentiated according to categories of occupations, depending on earnings.

During the Second Five-Year Plan, owing to the continuous

growth of the incomes of collective farms and collective farmers, the taxation system was again revised. In 1933 the income from industrial crops and livestock did not attract liability to agricultural tax, and this led to a great disparity between the tax liabilities of the various collective farms; it also held back the cultivation of grain. Moreover, the industrial centres were expanding with an attendant increase in the urban population. Livestock farming had to be developed in the collective farms to sustain the growing population. Only more arable land and intensive grain cultivation could provide the urgently needed food and fodder. In 1936 the agricultural tax on collective farms was therefore replaced by an income tax on earnings from all sources. The disparities in tax liability between collective farms were thereby eliminated.

In the period of mass collectivisation the system of state property insurance was changed. Collective farms were granted preferential premiums, whereas kulaks paid double and then treble the basic premium. Insurance claims by kulaks were restricted. The extent and terms of insurance liability were so scaled that collective farms and collective farmers obtained all the advantages.

All these financial measures stimulated the process of collectivisation and were instrumental in strengthening the organisation and economy of collective farms.

In the success of the collective-farm system a very important part was played both by the state farms and by the state machine and tractor stations (MTSs).

The MTSs were a great political and organisational force in enlisting farmers in the collective farms and convincing them of the advantages of large-scale mechanised agriculture. The machine and tractor stations were the means of technical progress in agriculture. Through them agriculture was re-equipped on modern lines, teams of skilled mechanics were trained, the level of crop cultivation and livestock farming was raised—the MTSs were an important source of grain and other food, and also of raw materials for industry.

During the Second Five-Year Plan the number of machine and tractor stations reached 6,000. They were equipped with the most up-to-date agricultural machinery. Their relation to the collective farms was on a contractual basis. For services rendered the MTSs were paid by the collective farms both in

kind and in money. The scale of charges was fixed by the Government with differentiation as to the type of service. Agricultural produce received in kind was despatched to state procurement centres where the MTSs were reimbursed at prices fixed by the state. The proceeds of these transactions and the money payments received by the MTSs from the farms were used to meet the station's own requirements. Seasonal purchases of the MTSs (usually motor fuel) were covered by loans from the State Bank. If the income of the MTS was insufficient, it was subsidised from the State Budget.

As the collective-farm system became established, the state increased its financial and material aid correspondingly. Thus, in 1929-32 the allocations to collective-farm construction from the budget and through the Agricultural Bank amounted to 560 million rubles. In addition, confiscated kulak property, valued at over 40 million rubles, was handed over to the collective farms. At the end of 1934 all liabilities for previous agricultural loans totalling approximately 50 million rubles were cancelled by government decree.

The rapid development of collective farming after 1929 made it necessary to improve collective-farm organisation and finance. In this connection the Central Executive Committee and the Council of People's Commissars in 1930 enacted the very important ordinance Model Rules of the Agricultural Artel, which laid down the organisational basis of collective farms and the distribution of their income (the procedure for creating a farm's non-distributable assets and other funds).

Financing the Cultural Revolution

The construction of socialism required the training of a new working intelligentsia and highly qualified specialists for all branches of the economy and social culture. Lenin argued that for the construction of socialism it is an essential condition that science, engineering, culture and participation in the affairs of government should be brought within the compass of the mass of working people. Having cast off social oppression and the subjection of national minorities, the working class of the U.S.S.R. in alliance with the working peasantry created all the conditions for carrying out the cultural revolution.

The Communist Party and the Soviet Government showed their concern for the cultural development of working people from the first days after the victory of the Revolution. The expenditure on social and cultural measures, as a proportion of total budget expenditure, was 22.4 per cent in the First Five-Year Plan and 25.3 per cent in the Second.

The network of schools was greatly enlarged, the number of persons attending them reaching 33 million. The network of higher educational institutions was expanded and the number of trained specialists was greatly increased. Whereas in 1928 higher educational establishments in the U.S.S.R. trained 28,700 specialists, this number reached 170,000 in 1929-32 and 369,900 in 1933-37.

Besides education, serious attention was paid to the development and improvement of public health. Large sums were also directed to social insurance and social security.

* * *

The rapid planned development of productive forces using advanced techniques, rational distribution of money and materials amongst economic regions and Union republics, and for raising defensive power of the U.S.S.R. made it necessary to marshal a large part of the country's financial resources through the Union budget.

The budgets of the Union republics financed municipal and housing expenditure, education and public health, the development of internal trade, the training of personnel, construction of roads of local and republican significance, and also the development of industry producing mass consumption goods.

Chapter 6

SOVIET FINANCE UNDER SOCIALISM

Finance on the Eve of the Second World War

The triumph of socialism and the universal predominance of socialist relations of production in town and countryside involved also substantial changes in the organisation of finance and in its purpose in socialised production.

With the elimination of the mixed (multisectoral) economy it was no longer necessary to use taxation and finance for redistributing the national income between the private and public sectors so as to benefit socialism at the expense of capitalist elements. Taxation on the individual declined in importance owing to the immense growth of revenue from the socialised economy. The growth of the all-Union budget was accompanied by considerable growth of republican and local budgets.

The victory of socialism in the Soviet Union enabled the Eighteenth Congress of the Communist Party (1939) to define the main economic objective of the U.S.S.R. as that of overtaking and surpassing the most advanced capitalist countries in economic development, i.e., in output per head of population. The Congress approved the Third Five-Year Plan for economic development.

The financial system was called upon to provide the financial resources necessary for carrying out the programme of economic and cultural construction. The Congress pointed out the necessity of improving the working of the budget and credit system. Cost accounting was to be improved, intensifying the drive against mismanagement; greater profitability was required in heavy industry and in other branches of the economy; the ruble needed to be strengthened by the growth of production, with more vigorous development of commodity circulation and a general rise in the standard of living of the people.

With the aim of ensuring a further advance in the economy, main attention was centred on the development of the most vital branches of the economy, as in the first two five-year plans. This found tangible expression in the growth of capital investment.

According to the Third Five-Year Plan capital investment in the U.S.S.R. economy totalling 19,200 million rubles was envisaged. In the first three years (1938-40) budget finance alone provided 8,300 million rubles for industrial development, and almost 4,000 million rubles for agricultural development.

Completion of the immense construction programme laid down by the Third Five-Year Plan required radical improvement in the organisation of building work. It was necessary to concentrate financial resources, building materials and

equipment on schemes nearing completion, to construct more medium and small power stations, collieries and other industrial enterprises. This would cut the waiting time before investment showed returns and would increase productive capacity more rapidly.

The decisions on reorganisation were embodied in the decree of the Council of People's Commissars of the U.S.S.R. and the Central Committee of the Communist Party of February 11, 1936, entitled "Improvement of Building Work and Reduction of Building Costs", and in another decree of the Council of People's Commissars of the U.S.S.R. of February 26, 1938, "Improvement of Designing and Estimating and Regularisation of Building Finance". These decrees provided for the further expansion and strengthening of enterprises undertaking building contracts, their re-equipment on the most up-to-date lines, development of the building and building material industries, improvements in drawing up plans and estimates for building jobs, reduction of building costs, and tighter financial supervision over the building programme.

Economic development was accompanied by a rapid growth of cultural construction. In the first three years of the Five-Year Plan (1938-40) the expenditure on social and cultural needs totalled 11,400 million rubles.

The successes in economic and cultural construction were reflected in the greater budget revenue and expenditure. During this three-year period budget revenue amounted to 46,400 million rubles. The immense expenditure on economic development and cultural improvement came principally from the accumulations of socialised enterprises.

The modernisation of industrial plant and equipment led to an increase in labour productivity and lower production costs. As a result profits increased considerably, and fewer enterprises worked at a loss and had to receive subsidies from the budget.

Whereas in 1938 the profits of all state industry were estimated at 1,400 million rubles, in 1940 they amounted to over 2,000 million rubles in Union industry alone. The growing net income of state enterprises also produced greater revenue from turnover tax, amounting to 28,500 million rubles in the period 1938-40.

With the growing profitability of state industrial enterprises

incentive bonus funds out of profits became more important. Instead of the former welfare improvement fund for factory and office workers, a director's fund was instituted at each enterprise, and this gave a greater stimulus to productivity. The allocations to this fund were fixed at 4 per cent of planned profits, and 50 per cent of over-plan profits.

In improving cost accounting and the financial organisation of enterprises a vital part was played by the new system of using the depreciation fund introduced in 1938. The standard depreciation deductions were revised and differentiated. Different arrangements were made for making use of the depreciation fund.

Up to 1938 the whole depreciation fund was employed in financing capital investment. From 1938 onwards some of these reserves (approx. 45 per cent) were placed in a special account in the State Bank, drawn upon for financing capital repairs. The rest of the fund (approx. 55 per cent) was deposited in the long-term investment banks and used for financing capital construction.

The revision of the standard deductions, coupled with the new provisions for capital repairs, encouraged enterprises to preserve their fixed assets to use them more effectively and to carry out repairs in good time.

During the Third Five-Year Plan the Communist Party and the Soviet Government also took steps to improve the collective-farm system and the financial affairs of collective farms. For the purposes of raising agricultural yields and increasing the sown area, the income tax paid by collective farms on earnings from grain crops was reduced. The collective-farm system was also assisted by changes in the method of financing the machine and tractor stations and changes in the method by which they were paid by the collective farms for services rendered. After 1938 collective farms started to pay only in kind for work done by the MTSs.

To stimulate labour productivity on collective farms, the Central Committee of the Communist Party and the Council of People's Commissars of the U.S.S.R. enacted at the end of 1940 a decree authorising supplementary awards to collective-farm workers for increasing agricultural yields and the productivity of livestock.

Important changes were also made in the taxation of individuals.

In 1939 a new law was passed regarding the agricultural tax which had hitherto been assessed at fixed rates regardless of the amount of actual earnings. This system had been introduced while the collective farms were just commencing and it was not in consonance with the drive to increase the earnings of collective farms and tighten up labour discipline. The old taxation system encouraged the development of the personal plots of the collective farmers to the detriment of the socialised holdings. Under the new law the collective farmers paid tax on earnings from their personal plots at progressively scaled rates. This was an incentive to build up the socialised holdings of collective farms.

In 1940 a change was made in the income tax payable by handicraft associations. Here the purpose was to assist producer co-operative associations in order to increase the output of consumer goods. Under the new law, when assessing the tax liability of co-operative handicraft workers and craftsmen, the financial authorities took into account whether the persons worked on artel premises and used its equipment, or worked at home using their own equipment.

In the years of the Third Five-Year Plan state loans continued to be one of the important sources of revenue for the State Budget. In the period 1938-41 four Third Five-Year Plan loans were floated, bringing in a total of about 3,400 million rubles. In 1938 a state internal lottery loan was launched and taken up, the bonds being purchased individually for cash.

A conversion operation* was carried out on state loans, reducing the rate of interest paid from 8 to 4 per cent and increasing the term of the loans from 10 to 20 years. Simultaneously with this conversion of state subscription loans, all previously issued loans which could be freely purchased and sold at the savings banks were consolidated in the 1938 loan with a 3 per cent return over 20 years.

The deposits of individuals in the savings banks also rose with rising real incomes and the higher standard of living. The balances on deposit accounts in the savings banks increased from 451 million rubles as of January 1, 1938, to 725 million rubles at the beginning of 1941.

* Conversion is the act of altering the terms of previous state loans, viz., lower interest rate and extension of maturity date, and also the combining of all previous loans into one conversion loan.

While carrying out socialist construction encircled as it was by capitalist states, the Soviet Union paid constant attention to strengthening its defence potential.

In view of the growing danger of war the Soviet Union was compelled to make drastic changes in its annual national economic plans and in the budget. These changes constituted a reallocation of material, manpower and finance for national defence.

Defence appropriations were increased compared with those originally planned under the Third Five-Year Plan. In the period 1938-40 defence expenditure was 12,000 million rubles, or 26.4 per cent of total budget expenditure. Defence industry went ahead of other industries in the growth of gross output.

The peaceful creative work of the Soviet people was interrupted on June 22, 1941, by the unprovoked aggression of the German fascists. A new period commenced in the life of the Soviet Union–the period of the Great Patriotic War of the Soviet people.

Soviet Finance During the Great Patriotic War of the Soviet People (1941-45)

The war of the Soviet people against the fascists was a stern test of the strength and stability of the Soviet system and of the country's economic and financial strength.

The financial system in the war period faced two important and complicated problems: the economy had to be reorganised rapidly on a war footing, and the war effort at the front and in the rear had to be financed in full and without interruption. This required the mobilisation of immense monetary resources.

During the war years the expenditure on military needs amounted to 58,200 million rubles, or more than half of all expenditure from the U.S.S.R. State Budget.

Moreover, many millions of rubles were allocated to the expansion of war production at existing factories, to the evacuation of industrial enterprises deep into the interior of the country, and to the construction of new enterprises in the East. Considerable sums were paid as allowances to servicemen and their families (more than 5.000 million

rubles). Great expense was also involved in restoring the economy in regions liberated from German occupation; this expenditure amounted to 7,500 million rubles.

Great difficulties had to be overcome to mobilise these enormous sums.

Because of the conversion of the overwhelming majority of enterprises to war production and the allocation of consumer goods primarily to the army, budget revenue from socialist enterprises and organisations fell. Furthermore, the enemy's temporary occupation of much of the territory of the European part of the U.S.S.R. involved loss of the large proportion of total revenue which came from enterprises and organisations which were situated on this territory and could not be evacuated. More than 1,300 large state enterprises were temporarily shut down through evacuation; not only could they produce no revenue until recommissioned on their new sites, but large sums were required to transfer and reconstruct them. As a result the revenue of the U.S.S.R. State Budget in 1942 decreased to 16,500 million rubles, compared with 18,000 million rubles in 1940. The revenue from turnover tax, which before the war had yielded about 60 per cent of the total revenue of the U.S.S.R. State Budget, dropped in 1942 to 6,600 million rubles, compared with 10,600 million rubles in 1940, i.e., it fell by more than one-third. The deductions from profits to the budget in 1942 was down to 1,500 million rubles, as against 2,200 million rubles in 1940.

To solve the problems facing the financial system while putting the economy on a war footing measures were taken to adapt finance to war-time conditions and requirements. This above all affected the U.S.S.R. State Budget since revenue and expenditure had considerably altered since 1940. This will be seen from the data in the table on p. 111.

The changes in State Budget expenditure were the most drastic. In peace-time the budget had primarily been financing the economy and social and cultural measures; in the war years the chief task was to organise the nation-wide struggle against the enemy for freedom and independence. Therefore defence expenditure took first place in U.S.S.R. State Budget expenditure.

Because of the decline in state revenue in the first years of the war, in order to meet the requirements of the front

(In million rubles)

	1940	1943	1944	1945
Revenue				
Turnover tax and deductions from profits	12,760	9,110	11,630	14,000
Taxation of individuals	940	2,860	3,700	3,980
State loans	1,150	2,550	3,860	2,900
Expenditure				
To national economy	5,830	3,310	5,370	7,440
To social and cultural amenities	4,090	3,770	5,130	6,270
To national defence	5,675	12,501	13,776	12,824

the appropriations to the economy were reduced by 2,200 million rubles, and those to social and cultural measures by 1,600 million. Military expenditure in the early part of the war was to some extent met from the country's large material and financial reserves, i.e., the budgetary reserves which had been built up in pre-war years out of budget surpluses, the available balances of the long-term investment banks, the balances of directors' funds, idle balances of the consumer goods fund, excess working capital of state enterprises and organisations, etc.

To cover the enormous military expenditure the Government also had recourse to issuing an additional quantity of currency.

The financial system of the U.S.S.R. came out with flying colours from the all-round testing of the war years. The revenue system which had been set up in the pre-war years completely justified itself. This is obvious from the fact that the U.S.S.R. State Budget did in fact finance all the military expenditure throughout the war years and remained stable.

Thanks to the advantages of the socialist system, a well-organised rapidly expanding war economy had been created by the beginning of 1942. The victory was won not only at the front, but also in the rear. The production of strategic materials for war industry increased rapidly.

The strengthening and growth of the economic might of the Soviet state told in the shattering blows dealt to the enemy by the Soviet Army. In 1943 a turning point was reached in the course of the war. Having gained the great victory on the Volga, the Soviet Army began an all-out offensive which continued until the nazi troops were routed on German territory.

The Soviet Army's successes gave further strength to the economy and, above all, to its base–heavy industry; food supplies also became more plentiful as the main industrial and agricultural regions were liberated.

The financial system assisted in building up the economy, and thereby grew itself.

In 1943 the U.S.S.R. State Budget met 97.3 per cent of budget expenditure out of revenue. From 1944 the budget was again in surplus, as in pre-war years.

In the course of the war the position of both the State Budget and the other parts of the financial system improved. Above all, the most important backing for the system was revived–socialised enterprises and branches of the economy provided the required financial support. By 1943 the revenue from economic enterprises and organisations had almost reached the pre-war level, and in 1944 it was even considerably higher than pre-war. In the war years the total receipts from the socialised economy constituted over 70 per cent of the total revenue of the U.S.S.R. State Budget.

The revenue from the socialised economy was made up mainly of the turnover tax and deductions from profits, which in the war years produced 54,600 million rubles, or almost 49 per cent of all the revenue of the state.

The large increase in revenue from the socialised economy was due to the successes in economic development. Thanks to the introduction of new technique and the spread of socialist emulation, output per man in Soviet industry between 1942 and 1944 increased by over 40 per cent. Production costs in the defence industry were considerably reduced in the same period. This enabled lower prices to be charged on many kinds of military equipment, thereby reducing budget expenditure.

In the war years about 100 new enterprises in the food industry (sugar refineries, oil mills, canneries, etc.) were constructed in the eastern regions alone. Other civilian indus-

tries were also developed: textiles, agricultural machinery, public utilities.

Among all the nations at war the Soviet Union was the only country where the state prices of rationed goods remained at their pre-war level during the war, and the same applies to services (rents for accommodation and charges for public utilities and transport). Prices were only increased on inessentials (alcoholic drinks, tobacco, cosmetics), and this also slightly increased budget revenue.

One of the important measures in getting the budget on a war footing was the increase in taxation and loans from individuals. Compulsory and voluntary payments by individuals were both important sources of revenue to meet the mounting expenditure. In the war years the total revenue from this source was 27,000 million rubles, or 25.3 per cent of budget revenue, of which compulsory, i.e., tax payments accounted for 15,700 million rubles, or 13 per cent of gross revenue.

Soviet citizens understood that great sacrifices were needed to beat the enemy. From the first days of the war mass voluntary donations were made to the U.S.S.R. Defence Fund and Soviet Army Fund. A nation-wide appeal was made with great success for subscriptions to state loans and to state lotteries with money and goods as prizes.

Public subscriptions to the U.S.S.R. Defence Fund and Soviet Army Fund amounted to 1,600 million rubles in cash, not counting the contributions in the form of gold, platinum, silver, valuables and agricultural produce, etc. During the war years the public contributed over 7,600 million rubles in loans, 1,250 million rubles in four state lotteries and over 1,000 million rubles in a special loan in the form of certificates of compensation for not taking holidays.

In war-time conditions steps were taken to increase the revenue from taxation on the people and to reduce the cost of assessing and collecting taxation. In particular, certain taxes were abolished as having no further importance, for example, the taxes on property passing by inheritance or deed of gift. Other personal payments were combined, for instance, the local levy for cultural purposes, which used to be paid by the urban and rural population, was combined with income tax in the towns, and with agricultural tax in the villages.

In view of the greater incomes of collective farmers from collective-farm trade, their estimated income for taxation purposes was increased and the agricultural tax was made highly progressive. A special 100 per cent war surtax was levied on income tax and agricultural tax. From January 1942 the surtax was superseded by a special war tax. A tax was also introduced on single people, and on people with small families. The purpose of this taxation was to assist the state in paying allowances to mothers with many children and to single mothers; it produced 810 million rubles in the war years.

The aim of the higher rates of income tax and agricultural tax was not only to increase revenue, but also to influence the prices on the unrestricted collective-farm market. In the war years supplies decreased, whilst the demand for agricultural produce increased. This led to higher prices on the unrestricted collective-farm markets and large amounts of money settled in the countryside, whilst in some cases agricultural produce was being bartered for manufactured goods.

The increases in the agricultural tax were instrumental in reducing the amount of money in the countryside whilst at the same time still encouraging the sale of produce on the market so that market prices fell.

With the contraction of retail trade, excess purchasing power was also mounting among the urban population. This surplus was to some extent absorbed into the budget by the higher income tax on factory and office workers and on other strata of the urban population. Thus, heavier income tax and agricultural tax, like commercial trade, was both a financial measure and a measure with an economic significance.

Changes were also made in the system of local taxes and imposts. The rates for the tax on buildings, and for ground rents and other charges were increased; the body of taxpayers was broadened by taxing the housing of town Soviets and the land on which the buildings were erected.

In the interests of financing the war and strengthening the currency, the savings banks had to maintain the deposits made before the war, while also increasing them. From June 23, 1941, the withdrawal of deposits made before the outbreak of war was suspended; depositors were allowed to draw not more than 20 rubles per month. From January 1944 this

restriction was lifted. A tide of deposits continued throughout the war, especially in 1944 and 1945. In 1945 about 490 million rubles came into the U.S.S.R. State Budget from the savings banks. By the beginning of 1946 the deposit balances in the savings banks were greater than before the war.

The insurance system handed over to the State Budget more than 580 million rubles during 1941-44 in deductions from profits and in subscriptions to state loans.

The measures which the Communist Party and the Soviet Government took to mobilise revenue from economic organisations and individuals had the result that by the second year of the war the revenue of the budget was higher than pre-war.

During the war industrialisation was carried on intensively in the eastern regions of the country. In three years alone (1942-44) 2,250 large enterprises were constructed and brought into operation in the East. Large sums were invested in the development of iron and steel, in fuel and, more particularly, coal mining (over 100 pits were sunk) industries, in the construction of power stations, and also in restoring, developing and improving railway transport.

From the third year of the war, after much enemy-occupied territory had been liberated, there was a rapid increase in budgetary investment for restoring and developing agriculture, particularly the machine and tractor stations.

During the war years the expenditure on financing social and cultural measures was about 21,300 million rubles. Even during the war it exceeded the pre-war level: by 25 per cent in 1944, and by 53.3 per cent in 1945.

In the war years inflation was held in check. This made for sound cost accounting at enterprises and on this basis high quantitative and qualitative indices of production were attained. This in turn kept the prices of producer and consumer goods stable in difficult war-time conditions.

The decisive factor in curbing inflation during the war was the strengthening of the finances of the Soviet state. From 1944 onwards, because of the budget surplus, it was no longer necessary to issue extra currency to cover war expenditure. With the build-up of financial strength and expansion of production and trade the purchasing power of the ruble increased and the situation with regard to currency circulation in the U.S.S.R. improved.

Soviet Finance During the Post-War Restoration and Development of the Economy

After the end of the war the immediate economic problem was to heal the wounds inflicted on the economy by the invaders, restore the previous level of industry and agriculture in the shortest possible time, and then to surpass that level. These tasks were embodied in the Fourth Five-Year Plan for the restoration and development of the economy (1946-50).

Immense resources were required to fulfil the plan. Fresh difficulties arose, the main point being that budget expenditure still remained heavy though hostilities had ceased and it was planned consistently to enlarge expenditure; but some of the sources of revenue in the war years either vanished, or decreased greatly, in the post-war period. Thus the war tax was abolished, the people's public subscriptions to loans were not so forthcoming, and less revenue was received from the agricultural tax; compensation for holiday-working was no longer lent to savings banks and so on.

To fulfil the post-war plan of reconstruction and development of the economy, it was necessary to strengthen the currency and credit systems, to increase the significance of profit and of cost accounting as an extra incentive to production, and to increase profitability in all industries by reducing production costs. Economic organisations also had to pay greater attention to mobilising their own resources and to economising, while the drive had to be continued to eliminate losses due to uneconomic or unproductive expenditure; payments for fulfilling and over-fulfilling production tasks had to occupy a greater share in the wage bill.

The Soviet Union by its own efforts and resources soon restored the war-shattered economy, and achieved rates of economic development unprecedented in history. Industrial production by 1950 had increased by 73 per cent compared with 1940, instead of 48 per cent as envisaged under the Five-Year Plan. The Fourth Five-Year Plan was 22 per cent overfulfilled as regards capital investment. The volume of capital investment was five times greater than under the First Five-Year Plan; it was almost twice the outlay on capital construction during the three and a half years of the Third Five-Year

Plan. During 1946-50 over 6,000 large industrial enterprises were restored, constructed and brought into operation. In 1950–the last year of the Five-Year Plan–construction commenced on the largest hydroelectric power station in the world at Kuibyshev on the Volga and the decision was taken to build the Volgograd and Kakhovka hydroelectric power stations.

The Communist Party and the Soviet Government in the first post-war years carried out a number of measures to improve collective-farm and co-operative agriculture. By the third year from the end of war grain production reached its pre-war level. A big job was also done on developing livestock farming.

The successful completion of the Fourth Five-Year Plan enabled the U.S.S.R. to adopt the Fifth Five-Year Plan (1951-55). By decision of the Nineteenth Congress of the C.P.S.U. it was proposed to increase industrial production by approximately 70 per cent in 1955 as compared with 1950.

As regards industrial production, the tasks of the Fifth Five-Year Plan were accomplished ahead of schedule in 4 years and 4 months. In 1955 industrial output was 3.2 times greater than in 1940, the production of the means of production was 3.9 times greater, whilst the production of consumer goods was doubled. Great projects were under way in further electrification of the country. The construction of the first nuclear power station in the world of a capacity of 5,000 kw was completed in 1954.

In implementing the post-war development programme an important part was played by the financial and credit system. The financial tasks were formulated in the decisions of the Nineteenth Congress of the C.P.S.U. in connection with the Fifth Five-Year Plan for economic development of the U.S.S.R. (1951-55). The function of finance and, more particularly, that of the U.S.S.R. State Budget, in extended socialist reproduction was increased.

In the interests of further socialist accumulation special attention was paid to the carrying out of production and financial plans by all enterprises, and to the checking of their fulfilment.

The most significant financial measure in the early post-war years was the monetary reform of 1947. The purpose was to eliminate the consequences of the war in the circulation

of money, to assist in restoring and developing the economy and to build up further the might of the Soviet state.

In spite of the immense problems the war had not affected the foundations of the monetary system, though considerable quantities of currency had gone into circulation in the early years of the war for financing national defence. Moreover, counterfeit money had been issued by the German invaders; this was in circulation during the war on territory temporarily occupied by the enemy.

The volume of money in circulation immediately after the war was approximately four times greater than at the outbreak of the war, while commodity circulation in state and co-operative retail trade, measured in fixed prices, was much lower than in 1940.

A start was made on disinflation during the war, especially after the budget deficit had been eliminated in 1944. After the war the rapid rates of growth in industry, agriculture and commodity circulation improved the financial position of socialist enterprises, which in turn assisted the growth of revenue for the U.S.S.R. State Budget. All this created the necessary prerequisites for strengthening the ruble and expanding trade.

In December 1947 when the monetary reform was carried out, manufactured goods and foodstuffs were derationed.

Currency in circulation was exchanged for new higher value currency in the ratio of 10:1. At the same time the deposit balances of individuals in savings banks and in the State Bank were revalued; the same applied to the current account balances of co-operative organisations and collective farms in credit institutions; a conversion operation was carried out also on state loans.

The need to revalue large deposits and change old bonds for new was dictated by the fact that the bulk of the money received for loans and through the savings banks had been paid in depreciated currency.

The wages of factory and office workers, pensions, scholarships, the income received by the peasants from state procurement of agricultural produce and the earned income of all strata of the population remained on the same scale and were now paid in the new full-valued currency. Derationing and the reduction of retail prices slashed the high prices on the collective-farm market. The overall gain to the workers from

the lower state retail prices and lower prices on the collective-farm market was about 8,600 million rubles in 1948 alone.

Monetary reform restored the sound Soviet ruble and facilitated the changeover to trade at unified prices without ration cards. It raised the role of money in the economy and increased the real wages of factory and office workers and the real earnings of the rural population. In connection with monetary reform and the new sound currency, working people had a more tangible inducement to increase productivity and improve every aspect of the work of socialist enterprises, thereby further strengthening Soviet finance.

With the ensuing economic development, retail prices of consumer goods were reduced several times in the post-war years. Each new price reduction represented a loss to the budget and a gain for the people. The price reductions increased the purchasing power of the ruble and improved foreign exchange rates. In this connection on February 28, 1950, the Council of Ministers of the U.S.S.R. passed the ordinance entitled "Conversion of the Ruble for Gold and Higher Foreign Exchange Rates". By this ordinance the gold content of the ruble was set at 0.222168 grammes pure gold.

With the aim of giving material encouragement to industrial workers, the director's fund was reinstituted from July 1946 onwards, after being suspended during the war. It was to assist in increasing material incentives in the drive to fulfil and overfulfil planned tasks.

The revision of wholesale prices from January 1, 1949 onwards was of special importance in improving cost accounting and increasing revenue from economic organisations.

The wholesale prices of means of production and consumer goods prior to the reform were still the same as in the period 1935-39; they had not changed during the war. But production costs in some industries and, more particularly, heavy industry, had risen considerably owing to war-time difficulties, and also because of the higher wages of factory and office workers in many industries. Hence a gap had arisen between production costs and wholesale prices. Many industries (iron and steel, coal mining, chemical industry, lumbering, etc.) had started to incur losses, which were covered by subsidies from the State Budget.

These subsidies perpetuated carelessness of responsibility and complicated the accounts between the budget and economic organisations; they made control of production and commodity circulation by the ruble more difficult and were at variance with the principles of cost accounting. So it became essential to discontinue state subsidies. Accordingly wholesale prices were somewhat increased in a number of sections of heavy industry. To eliminate the unprofitableness of the railways, freight rates were increased, as also were electricity charges. As a result, by 1949 profitability was increased in all branches of the economy. Total profits more than doubled as compared with 1948.

This greater profitability was not only, or not so much, the result of the higher wholesale prices (though this was of great importance), but mainly the result of enterprises mobilising their own internal resources and economising, and the systematic modernisation of industry which raised the productivity and increased overplan profits. All this made possible further reductions in wholesale prices.

On January 1, 1950, wholesale prices were reduced on the industrial products of enterprises coming under several ministries, as well as electricity charges and rail freight rates. This was instrumental in further reducing industrial production costs and in improving the financial position of the economy and strengthening the Soviet currency. On January 1, 1952 the Soviet Government again reduced the prices of producer goods and freight rates. On July 1, 1955 they were reduced a third time.

Measures were taken to achieve closer financial supervision to improve the financial side of production at socialised enterprises and organisations. Thus the ordinance of the Council of Ministers of the U.S.S.R. and the Central Committee of the C.P.S.U. of August 21, 1954, entitled "The Functions and Tasks of the U.S.S.R. State Bank" required financial and banking staffs to intensify control of the economy by the ruble, to make a thorough study of the production and financial position of enterprises, and to apply strict effective economic countermeasures against infringements of economic and financial discipline. The ways in which the State Bank could influence the economy were considerably widened. A different system of credit was set up for enterprises. The State Bank rendered temporary financial aid to well-run enterprises in

the event of temporary financial difficulties (due, for instance, to non-payment by buyers). A special system of credit was applied to enterprises which did not achieve their planned cost reductions, or failed to fulfil their plans for capital accumulation, or allowed losses over and above the plan or ran down their working capital. The State Bank was given the right to declare ill-run enterprises insolvent. To counteract overstocking of raw material or finished goods, the State Bank could put enterprises which hoarded materials they did not need on a letter of credit basis with suppliers.

In the early post-war years the sources of revenue of the State Budget of the U.S.S.R. changed substantially. With the economy changing over to peace-time production, the revenue from the socialist economy increased in relative importance and in absolute value; the proportion of revenue from compulsory and voluntary payments by individuals greately contracted. The relatively lower level of taxation on individuals was due to two reasons: the revenue from economic organisations had increased greatly and the war tax was abolished in the first year after the end of the war. However, the total of compulsory and voluntary payments by individuals increased in absolute value, the explanation being the larger number of factory and office workers and the higher wages.

The considerably higher earnings of working people in the post-war years made it possible to draw large sums into the budget from the idle money of the population through state loans and the savings banks.

Budget expenditure after the war also changed considerably. The expenditure on financing the economy and social and cultural amenities increased considerably in absolute terms as well as in relative importance. These outlays came to account for more than two-thirds of all budget expenditure.

From 1955, in order to improve the economic planning and finance of the Union republics and expedite the tasks of economic and cultural construction, the economic planning system of the Union republics was changed, and this entailed a corresponding change in drawing up the U.S.S.R. State Budget. The importance of the budget was enhanced as a major means of bringing Lenin's policy on the national question to fruition.

The budgets of the Union republics in 1955 were 36 per cent larger than in 1950, and three times greater than in 1940.

The turning point in economic development was the historic Twentieth Congress of the C.P.S.U. The unmasking of the Stalin personality cult and extensive application of Leninist principles of democratic centralism enabled a considerable broadening of the economic and financial powers of the Union republics and the lower organs of state power.

The budget powers of the Union republics were widened. Thus in the U.S.S.R. State Budget appropriations to Union republican budgets were no longer set out in detail for particular measures. The governments of Union republics received powers to distribute their budget expenditure on the national economy, social and cultural measures and the upkeep of the administrative machinery, and also between republican and local budgets. In turn the Union republics widened the powers of local authorities as regards the use to which budget funds were put.

In 1958 the budgets of Union republics were almost 130 per cent as large as in 1956, whilst the proportion of their expenditure in the overall expenditure of the U.S.S.R. State Budget rose from 24.5 per cent in 1956 to 50.9 per cent in 1959. In the same year the Union republics undertook over 75 per cent of all capital investment, whilst the enterprises subordinate to Union republics produced over 90 per cent of all industrial production.

This growth of the Union republican budgets involved a change in their sources of revenue. Deductions were made to the Union republican budgets from many more all-Union state revenues and taxes. Reserve funds in the Union republican budgets were increased and placed at the direct disposal of the Councils of Ministers of the Union republics and were used to meet unforeseen contingencies in the implementation of the national economic plan and budget.

In 1958, 68 per cent of expenditure on financing the economy was met from the Union republican budgets.

The greater part played by the republican budgets in financing the economy required improvement in the work of the economic and financial bodies of Union republics; their responsibilities were increased for the punctual fulfilment of plans of economic and cultural construction, and of the revenue plan of the U.S.S.R. State Budget in relation to all sources, and for providing continuous finance for the measures laid down in the national economic plan.

In the new conditions practical steps began to be taken to raise the standing of financial bodies in mobilising monetary resources and to keep them more closely in touch with actual production. This is seen, more particularly, in the widespread application of decentralisation of deductions from profits, based on direct links between finacial bodies and enterprises, and stricter control by financial bodies of all the production and financial indices of enterprises and economic organisations.

Soviet Finance in the Period of Full-Scale Construction of Communism

The Soviet Union has entered into a new phase of its development–the period of full-scale construction of communist society. According to the Programme of the C.P.S.U. "the building of a communist society has become an immediate practical task for the Soviet people".

The main problems in the period of full-scale construction of communism are to establish a material and technical basis of communism, to build up economic power and defensive strength, to improve communist education of the people and, at the same time, to provide ever fuller satisfaction of the growing material and spiritual needs of the Soviet people. As a result the U.S.S.R. will possess productive forces unprecedented in their might, surpass the technical level of the most advanced countries and take first place in the world in production per head of population.

In twenty years the gross social product will be approximately five times greater, industrial output will be on a scale at least six times greater than now, whilst gross agricultural output will be approximately three and a half times as great. In 20 years' time the U.S.S.R. will produce almost twice as much industrial output as is now produced in all the non-socialist world.

The accomplishment of such tasks presupposes the fullest possible use of commodity-money relations and the levers of finance and credit through which the production and distribution of the national income are organised. In the period of full-scale construction of communism financial relations will increase in importance both within the country, and with

other countries. Within the country there will be wider scope for financial interconnections both in the state sector and in the co-operative and collective-farm sector.

In the state sector this involves improving the financial side of production activity in enterprises and economic organisations, based on wider application of cost keeping of labour and materials in production and financial planning.

In the co-operative and collective-farm sector commodity-money relations are developing within and between collective farms, and also between collective farms and other branches of the economy and the state, on the basis of cost accounting principles. This involves strengthening the economy and finance of collective farms, increasing sales of agricultural machinery to collective farms, gradually going over to monetary payment for farm labour. It also involves constructing enterprises for processing primary materials attached to individual collective farms and groups of collective farms, and also power stations, hospitals, boarding schools, clubhouses, cinemas and roads. Cost accounting needs to be systematically improved, and increased financial aid is required from the state.

The expansion of commodity-money transactions in the foreign economic relations of the U.S.S.R. is due to the greater volume of foreign trade, especially with other socialist countries and also to the financial aid of the Soviet Union to other socialist countries and to many developing countries.

The major features of the reproduction process in the period of full-scale construction of communism are as follows: (1) development at more rapid rates of those branches of heavy industry which will play a decisive part in creating a material and technical basis of communism and in solving the main economic problem of the U.S.S.R.; (2) further improvement of socialist production relations, gradually bringing co-operative and collective-farm property closer in form to national property, and eventually fusing them; (3) substantial changes are necessary in the distribution of the national income with larger social consumption funds, eliminating any unjustified inequalities in the remuneration of different groups of working people, going over to monetary payment for collective farmers and establishing public catering in collective farms.

For solution of the root problem–the problem of the maximum gain of time in the peaceful economic competition between socialism and capitalism, a necessary condition is the drive against mismanagement, for mobilisation of all the available labour, materials and money of the country. This also determines the principal tasks of the Soviet financial system in the present conditions. These are to assist the growth of socialist production, mobilising resources of all economic organisations, to allocate them properly between branches of the economy and economic regions of the country and improve financial control over the use of materials and money.

The changes in the productive forces and production relations in turn react on the functions of Soviet finance. In particular, in the period of full-scale construction of communism, in view of the gradual abolition of taxes, non-tax methods of distributing the national income are becoming increasingly important.

The U.S.S.R. State Budget is becoming more important in the state's two principal functions–economic organisation and culture and education.

In speaking of financing the economy, emphasis should be laid on the increasing part to be played by finance and, more particularly, by the U.S.S.R. State Budget, on systematically realising the Party's policy of accelerated development of the productive forces in the eastern regions of the country. Using the abundance of water power and cheap coal in these regions, large power stations are being installed and rich deposits of iron ore and natural gas are being brought into exploitation; a third Soviet iron and steel centre is being created along with non-ferrous metallurgy, the chemical industry, engineering and the building industry; new towns and centres of industry are springing up.

To create a material and technical basis of communism, it is necessary to have still closer relations and mutual assistance between Union republics, with co-ordination over very large economic regions. The measures indicated in the economic plans will be implemented from the republics' own revenues and by the deductions from all-Union revenue. Separate republics are annually receiving additional grants. Thus, for example, the Kazakh Soviet Socialist Republic received 1,200 million rubles in 1964, the Armenian Republic

34 million rubles and the Turkmenian Republic about 60 million rubles.

This is a practical demonstration of the function of finance in the correct location of industry and in improving the friendship of Soviet peoples. The growing state expenditure on social and cultural measures and, in particular, on education, public health and culture, is instrumental in bringing up conscious members of communist society with an all-round education and eliminating the essential differences between mental and physical work. At present 40 per cent of factory workers and 23 per cent of collective farmers have a secondary or higher education.

In the conditions of full-scale communist construction, vast resources are required to build up the economy more rapidly and raise the standard of living of the working people, and this makes the drive for high returns in the production and finance of every enterprise exceptionally important. This in turn requires correct organisation of financial work at enterprises and a high level of financial planning. Financial planning must be carried out directly at enterprises. The greater part being played by financial planning at lower levels enables the financial authorities to strengthen their control of the production and financial work of enterprises, and also makes it possible for them to make a deeper study of their financial work linked with the organisation of their economic activity.

Finance is also playing a much greater part in the drive for a rapid improvement in socialised agriculture.

The level reached by agriculture still does not correspond to the immense possibilities of the socialist system, or to the growing demand for agricultural produce. Therefore, state investment in the fixed assets of agriculture is being increased considerably, as are the long-term and short-term credits extended to collective farms through the U.S.S.R. State Bank.

To raise collective-farm property to the level of national property, it is necessary to raise the productivity of collective farms to the level of national production by strengthening the productive forces in agriculture and by further socialisation of production. Participating in this are the resources of the collective farms themselves as well as state finance.

With the growth of the socialised economy of collective farms and their greater financial strength, enterprises and

social facilities will be increasingly constructed by collective farms acting jointly, or with state participation; collective farms will also participate more and more in establishing enterprises and facilities of national significance–boarding schools, clubhouses, hospitals and rest homes. Already the features of national property are developing and growing within collective-farm and co-operative property.

The programme of full-scale construction of communism in the U.S.S.R. is being carried out at the same time as the economic and financial powers of the Union republics are being greatly widened.

The Programme of the C.P.S.U. stresses the need to extend the functions and responsibilities of local bodies in economic administration, to transfer these functions from all-Union authorities to the republics, from republican authorities to the regions and from the regions to the districts. The widening of the powers of local Soviets will take place at the same time as their gradual development from bodies of state rule into bodies of public self-government. Profound changes are taking place at present in Soviet economy. They are directed at strengthening the scientific principles of economic management and planning. A new system of economic organisation and planning has been worked out at the end of 1965.

The economic reform in the Soviet Union serves to solve the following tasks:

(1) correctly combine centralised state planning with wide economic initiative of enterprises and grant more economic incentives for industrial production;

(2) extend the rights of enterprises by basing their operation fully on cost-accounting principles. As the efficiency of production rises and the resources of the enterprises grow, more means will be left to them for the development of production and for granting incentives to workers;

(3) appraise the results of the activities of enterprises according to the output they market, profits they obtain and the extent to which they fulfil targets for the supply of key commodities;

(4) make the remuneration of workers in industry directly dependent not only on their own labour but also on the results achieved by the enterprise as a whole;

(5) make the principle of mutual material responsibility the cornerstone of economic relations between enterprises.

Develop direct links between producers and consumers; assign greater importance to economic agreements.

In what way will the new methods of planned management of industry be practically applied?

Only indices covering the most important targets of the national economic plan are handed down to enterprises. Subject to approval by superior organisations are the indices on:

output–total volume of output to be marketed in current wholesale prices; key commodities in physical terms (also export commodities), including quality specification;

labour–total wage fund;

finances–sum total income and profitability (as a percentage of the total value of the fixed assets and working capital), payments to the State Budget and appropriations by the budget;

capital construction–total volume of centralised capital investments, commissioning of fixed assets and production capacities by centralised capital investment;

introduction of new equipment–targets for the production of new commodities and the introduction of new processing techniques, comprehensive mechanisation and automation of production, of special importance to the development of the relevant branch;

material and technical supply–volume of deliveries of raw and other materials and equipment.

The wider application of economic methods of industrial management goes hand in hand with the transition to the sectoral principle of economic management by relevant ministries.

The main distinguishing feature of our era is that the world socialist system has become a decisive factor in the development of human society.

Reciprocity and collaboration between socialist countries is based on equality of rights, mutual interest and comradely mutual aid. In building up the world system of socialism great value attaches to collaboration between socialist countries, in the form of mutual credit facilities and of reciprocal scientific and technical assistance in the construction of industrial enterprises, power stations, pipelines, roads, etc.

As soon as the new social system had spread beyond the frontiers of one country, one function of socialist states has

been to develop and organise collaboration and mutual assistance. The Council for Mutual Economic Assistance (CMEA) is of the greatest importance for multilateral economic relations between socialist countries.

Thanks to collaboration, mutual aid, the co-ordination of plans and the international division of labour, socialist countries are drawing closer together economically, are gradually becoming a single economic complex. Lenin foresaw as characteristic of the world socialist system the tendency "towards the creation of a single world economy, regulated by the proletariat of all nations as an integral whole and according to a common plan. This tendency has already revealed itself quite clearly under capitalism and is bound to be further developed and consummated under socialism."*

Economic collaboration and mutual aid between socialist countries is especially significant in view of the need to equalise the economic level of all socialist countries, to make a more or less simultaneous transition of all socialist countries to communism, and to win victory in the peaceful economic competition with capitalism.

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* Lenin, *Collected Works*, Vol. 31, p. 147.

PART THREE

FINANCIAL SYSTEM OF SOCIALIST ENTERPRISES AND BRANCHES OF THE ECONOMY

Chapter 7

FINANCIAL SYSTEM OF STATE SOCIALIST ENTERPRISES

General Concept of the Finance of State Enterprises

The financial system of socialist enterprises and branches of the national economy is the primary element in the Soviet financial system. It serves to create and circulate resources in the economic turnover of enterprises and to distribute the social product. It is inseparably linked with the change in the form of value.

The presence, under socialism, of two types of socialist property makes it necessary to distinguish within the financial system of branches of the economy, finance in state enterprises on the one hand, and in co-operative and collective-farm enterprises and organisations on the other. The essential differences between them arise out of the differences between the two sectors of socialist production.

State enterprises are primarily characterised by a higher level of socialisation in the means of production and a better form of distribution according to work done. The financial system of state enterprises occupies the leading position in the financial system of the economy as a whole.

The financial aspect of the working of state enterprises covers the monetary relations which arise during the process of reproduction. These include:

First: Monetary relations between state enterprises and factory and office workers. Since part of the national income is distributed between employed persons on the basis of the socialist principle of payment according to work, money is the instrument by which wages are paid and expenditure of the wage fund is controlled.

Second: Monetary relations between the state and enterprises. These arise on the one hand because resources accumulate in the general state fund of monetary resources, and on the other hand because enterprises are financed and credited.

Third: Monetary relations between enterprises and economic organisations (payment for products and services rendered; the redistribution of working capital, profits and depreciation deductions). The financial position of enterprises to a great extent is dependent upon these monetary operations being carried out in full and on time.

Fourth: Monetary relations within state enterprises, dependent on the creation and utilisation of income in the process of the circulation of resources.

Thus, the financial system of enterprises serves the process of reproduction in that it supplies monetary means for the circulation of resources. The carrying out of this service is connected with the exercising of the distributive and control functions of the Soviet financial system.

The financial system of enterprises and branches of the economy exerts its influence upon all aspects of the economic activities of enterprises. It helps to reveal untapped resources within the enterprise; it plays an important part in accelerating the circulation of working capital and it increases the efficiency of the use of fixed assets in enterprises.

The financial system of socialist enterprises is linked in the closest way with the general state financial system and primarily with the State Budget. This mutual connection is established in the system of payments into the budget, budget-financing, and also by financial control of the work of enterprises.

The financial system of socialist enterprises and branches of the economy is a system of monetary relations, arising in the course of the circulation of monetary resources in the process of extended socialist reproduction.

The special features of the organisation and use of the financial system in different branches of the economy reflect the characteristics of the branch of material production concerned and determine, primarily, the method of profit distribution, the composition and structure of working capital and the sources of finance for the productive assets of enterprises.

Under the conditions of a socialist economy the financial activities of state enterprises are organised on the basis of the national economic plan. The Soviet state, while concentrating in its own hands the principal part of the means of production, leaves at the disposal of individual state enterprises sufficient resources for the successful fulfilment of the economic plans.

Cost accounting is the form of planned management of socialist enterprises by which the state creates the necessary incentives for the fulfilment and overfulfilment of state plans. At the same time, the successful implementation of the principles of cost accounting is impossible without a rational financial system.

The most important principles of cost accounting are that production costs are met by the enterprise out of its own income and that it earns net income (the value of surplus product) from selling output and providing services. This means that all production and selling costs are met out of receipts and in addition net income is created, a growing part of this being directed towards increasing the fixed assets and working capital of enterprises.

When Lenin examined the cost-accounting method of organising the activities of state enterprises, he directly linked it with increasing labour productivity, the avoiding of losses, and the profitability of enterprises.

Cost accounting requires the granting of economic and operative independence to enterprises within the limits of the plan. For this each enterprise is endowed by the state with the amount of fixed and current assets necessary to achieve the uninterrupted production and sale of output. The resources of an enterprise, their distribution and sources are entered in its independent account. The enterprise on cost accounting has its own bank account and exercises the right to enter into economic relations with other enterprises, to conclude business contracts with them and to receive bank loans for working capital and for other purposes.

The enterprise, in the person of its manager, is responsible to the state for the efficient use of resources, for plan fulfilment in respect of quantity, kinds of output and the level of production costs. It is also responsible for the fulfilment of the accumulation plan and its obligations to budget and credit institutions, and for using budgetary grants and bank loans for the purposes specified. At the same time, the enterprise is responsible for fulfilling on time its contracts with other economic organisations concerning the delivery of products of a prescribed quantity, assortment and quality.

Cost accounting cannot be implemented without day-to-day recording and checking on all aspects of the enterprise's work. Financial organs control the activities of enterprises when considering financial plans, and also in the course of financing state enterprises and mobilising their income and accumulation into the State Budget.

The State Bank, in the process of crediting and settling accounts, has the opportunity to exert a strong influence upon the economic-financial activity of enterprises. It can grant additional credit to an enterprise that is working well, and use sanctions against one that is working badly and require the correction of its shortcomings.

Through the business contract system, cost-accounting enterprises establish mutual control by the ruble to see that the plan is fulfilled and that output is produced in the assortment and quality specified.

The September 1965 Plenary Meeting of the Central Committee of the C.P.S.U. has worked out effective measures to strengthen centralised state planning and to make enterprises operate completely on cost-accounting principles. Important innovations conducive to this aim are: (1) introduction of a charge for the use of fixed productive assets, and the established working capital quota, (2) placing a larger share of the profits at the disposal of the enterprise, (3) a sharp decrease in the national economic plan indices handed down to enterprises, (4) greater economic stimuli granted to enterprises for drawing up and implementing sufficiently intensive production and financial plans, and (5) ensurance of material interestedness of the workers not only in the results of their own labour but also in the results achieved by the enterprise as a whole.

Resources of Cost-Accounting Enterprises

Productive funds hold the most important place in the composition of resources allocated for the use of enterprises.

An uninterrupted circulation of the funds of enterprises takes place in the course of production.

According to its functions productive funds can be subdivided into fixed assets and working capital.

Fixed assets take a full and recurrent part in the productive process; they maintain their physical form and gradually transfer their value to the product which they are helping to manufacture, to the extent of their depreciation.

Fixed productive assets include: machinery and equipment, buildings in which production takes place, production structures, means of transport, tools and implements (with a working-life of more than one year and a value of not less than fifty rubles). Fixed assets in social or administrative use constitute the non-productive group of fixed assets, which make up about forty per cent of the total fixed assets in the country.

By the beginning of 1964, fixed assets in state and co-operative enterprises reached the value of 434,000 million rubles, of which fixed productive assets amounted to 254,000 million rubles, having increased by 320 per cent since 1940. This indicates the considerable growth which has taken place in the amount of machinery and power per worker.

During the current twenty years, fixed assets will increase by 400 per cent as a result of large-scale capital investment directed towards the creation of the material and technical basis of communism.

Fixed assets are subject to both physical wear and tear and to obsolescence. With continuous technical progress, even machines and equipment which are still in working order have to be changed for new ones or undergo modernisation, since they become relatively unproductive or uneconomical.

In value terms, depreciation of fixed assets is expressed in depreciation deductions. These depend on the composition, quality and structure of fixed assets, on the intensity of their use, and their age.

The annual amount of depreciation deductions is calculated as a standard percentage of the value of fixed assets. This rate of depreciation varies with the branches of the economy, departments and enterprises, and also according to the different types of fixed assets.

From 1963, new rates of depreciation were introduced. These are differentiated according to the type of fixed assets and are fixed by taking account of obsolescence, the intensity of use of fixed assets and the period for replacement of equipment. In addition, medium-term as well as long-term repairs and part of the costs incurred in modernisation are included in capital repair. In order to stimulate a material interest in the improved utilisation of fixed assets, depreciation is also charged on the value of equipment and means of transport in stock. The new uniform rates of depreciation strengthen the financial basis for the reproduction of fixed assets and, in addition, enable production costs to be determined more exactly.

The current assets of cost-accounting enterprises take the form of productive stocks and also resources invested in work in progress. Besides these productive current assets, each enterprise has *cash and disposable stocks* which include: finished goods in store, payments in transit, sundry debtors, and, finally, cash. Productive current assets plus cash and disposable stocks, expressed in value terms, constitute the total *working capital of enterprises.* By the beginning of 1964, working capital in all sectors of the economy attained the huge total of over 118,000 million rubles.

Productive current assets form the main part in the composition of the working capital in socialist enterprises, in contrast with capitalist enterprises, where cash and disposable stocks predominate.

The working capital of socialist enterprises is divided according to its source into their own capital and loan capital.

The enterprise's own working capital must make possible the formation of minimum stocks, for which standard amount or quotas are laid down: raw materials and supplies, fuel and other productive stocks, work in progress and finished goods. An enterprise's own working capital is built up out of profits and budgetary grants, allotted for this purpose within the limits laid down by the financial plan. The required amount of these resources is reduced by the amount of the

permanent liabilities. The planned total of an enterprise's own working capital is known as the *working capital quota.*

The temporary requirements of enterprises for resources to form seasonal stocks and to cover costs of a seasonal nature, are met by specific bank loans which form the *loan capital of enterprises.* Short-term credit is also obtained on output which has been despatched from the enterprise, and in addition cost-accounting enterprises have the right to receive current account credit.

In branches of the economy where there is no seasonal variation, use is made of credit on turnover. Here bank loans and the enterprise's own capital each contribute a proportion of the total working capital.

Of the total amount of working capital held in the economy of the U.S.S.R., the funds of enterprises and equivalent resources account for 40 per cent, bank credit for 44 per cent and other sources of finance for the other 16 per cent.

The planned requirement for an enterprise's own working capital is arrived at during the compilation of the financial plans from the standard quantities of stocks and the corresponding costs, as given in the production estimate for the planned period.

In fixing the quotas for work in progress, account is taken of the length of the production cycle, the amount by which costs have increased and the daily expenditures on gross output. In the financial plan, the growth of the enterprise's own working capital is planned as being the difference between the quotas in the planned year and in the current year.

A comparison of the actual amount of the enterprise's own working capital with the approved quota for the beginning of the planned year shows the surplus or deficit of resources.

The changes in the system of production and financial planning have led to the creation of the necessary prerequisites for fixing working capital quotas for each enterprise individually. These should correspond to the production plan and the machines and materials supply plan.

At the beginning of 1962, Basic Regulations for the quotas of working capital in state enterprises and organisations were adopted. These require that accurately determined quotas shall be worked out for the working capital of each enterprise individually, in order to achieve with the least possible use

of resources the production and sale of goods without interruption and the payment of accounts within the stipulated period. The quotas for working capital are fixed in accordance with the estimates of production costs and the norms for consumption and stocks of goods and materials laid down in the production plan and in the machines and materials supplies and sales plans. The transport and accounts situation is also taken into consideration.

The rate of turnover is an index of the efficiency of the utilisation of working capital. The relationship between the value of output sold and the average amount of working capital remaining in production and circulation determines the number of times a given quantity of resources can turn over. The rate of turnover can also be expressed as the average length of time required for working capital to be turned over once in a given period. When working capital is used more efficiently the frequency of turnover is greater and the duration of a cycle is correspondingly shorter.

Accelerating the rate of turnover of working capital releases considerable monetary resources for the needs of the economy; it increases the efficiency of the use of resources and exerts a positive influence upon the financial situation of enterprises on cost accounting. To accelerate the rate of turnover of working capital by only one per cent enables several hundred million rubles to be released in a year.

The rate of turnover of the working capital of socialist enterprises can be accelerated in several ways. The length of the production process can be shortened through technical progress. Stocks of raw materials, supplies and fuel can be reduced by utilising them more efficiently and by organising supply rationally. The sale of finished goods can be speeded up. The settlement of accounts can be better organised.

The release of working capital resulting from an acceleration in the rate of turnover may be both absolute and relative. Absolute release of working capital involves a decrease in productive stocks, work in progress, finished goods, and the other components of working capital. Relative release of working capital means that the rate of growth of production and sale of products is greater than the rate of growth of working capital. In other words, although an acceleration in the rate of turnover has been achieved, the actual stocks of working capital have not been reduced.

A socialist economic system contains great potential for the absolute and relative release of working capital as a result of an acceleration in its rate of turnover.

Income of State Enterprises and Economic Organisations

The output of socialist enterprises is realised by exchange at fixed state prices. As a result, enterprises receive the proceeds from sales, this includes payments for services rendered by the enterprises. The volume of an enterprise's receipts, at a given price level, depends upon the extent to which its plan of output has been fulfilled in respect of quantity, quality, and assortment.

Besides this fundamental item, the income of enterprises and economic organisations includes receipts from subsidiary activities, proceeds from the sale of property which is no longer in use and profits from capital construction carried out on an economic basis, etc.

Production and selling costs are met in the first place out of an enterprise's earnings. These include the wages of factory and office workers, the costs of raw materials, supplies, fuel and other types of productive current assets, and the payments into the depreciation fund to cover the depreciation of fixed assets in the given period. The difference between income and the full costs of production constitutes *the value of the surplus product* or *the monetary accumulation of the enterprise* (or branch of the economy).

Profit is an important form taken by the value of the surplus product (net income) of socialist state enterprises.

This profit is one of the major sources of central state monetary funds. It is also widely used to meet the outlays incurred by cost-accounting enterprises in expanding output and to form bonus funds in order to stimulate greater output and lower costs. Profit is the most important quality index of the success of the cost-accounting aspects of an enterprise's activities.

The ratio (as a percentage) of the profit to the value of the fixed productive assets and established own working capital in a given period expresses *the profitability* of a given enterprise or sector of the economy.

For individual goods profitability is expressed as the ratio of profit to the cost of the marketed goods.

"It is necessary," it was emphasised in the Programme of the C.P.S.U., "to promote profitable operation of enterprises, to work for economy and thrift, reduction of losses, lower production costs and higher profitability."

The consistent reduction of production costs is a decisive source of profits. Economy in production is promoted by:

(1) introducing new technique and advanced technology, and the all-round mechanisation and automation of the production process;

(2) increasing the productivity of labour faster than wages;

(3) utilising fixed assets and working capital rationally (cutting down quotas for the consumption of raw materials, supplies and fuel per unit of product; using equipment more efficiently; introducing substitutes in production; cutting down waste);

(4) raising the quality of output;

(5) lowering overhead costs per unit of output;

(6) eliminating unproductive expenditure.

The introduction of management without an intra-factory break-down into departments, shops, etc., raises efficiency and lowers production costs.

In seven years, by the end of 1965 production costs in industry decreased by about 11.5 per cent. Significant savings in costs will also be achieved in other branches of the economy. As before, the decisive factor in the lowering of production costs is the increase in labour productivity, which amounts to 40-50 per cent in industry, 55-60 per cent on state farms, and 60-65 per cent in building.

The yield from each percentage reduction in production costs has risen sharply since the war. In 1940, a reduction in production costs of one per cent produced a saving of 150 million rubles, in 1950 of 500 million rubles and in 1959 of 1,000 million rubles.

In state socialist enterprises and organisations profits are largely used to stimulate the material interest of the workers in fulfilling and overfulfilling the accumulation plan and making more effective use of the fixed assets and working capital. This is furthered by the payment to the budget of a charge for the use of productive assets and interest for bank credit. Deductions are made from the remaining profit to the

production development fund: for capital investments and the increment of the working capital. The incentive funds created out of profits include the bonus fund, fund for social and cultural measures and housing construction, fund for the production of consumer goods from waste and the fund for the payment of prizes to winners of the All-Union socialist emulation.

State Bank loans for the development of new machines and methods are repaid out of profits, as are also planned losses incurred in housing and utilities.

The remaining part of profit goes to the budget. In cases where profits are less than or equal to the planned amount needed to cover the expenditure of the enterprise, ten per cent is taken from the profit for the budget. Financial organs have thus the power to check the fulfilment of the quantitative and qualitative indices of the plan.

Part of overplan profit goes to the ministry fund for rendering temporary financial assistance to enterprises. For the distribution of profits see diagram on page 141.

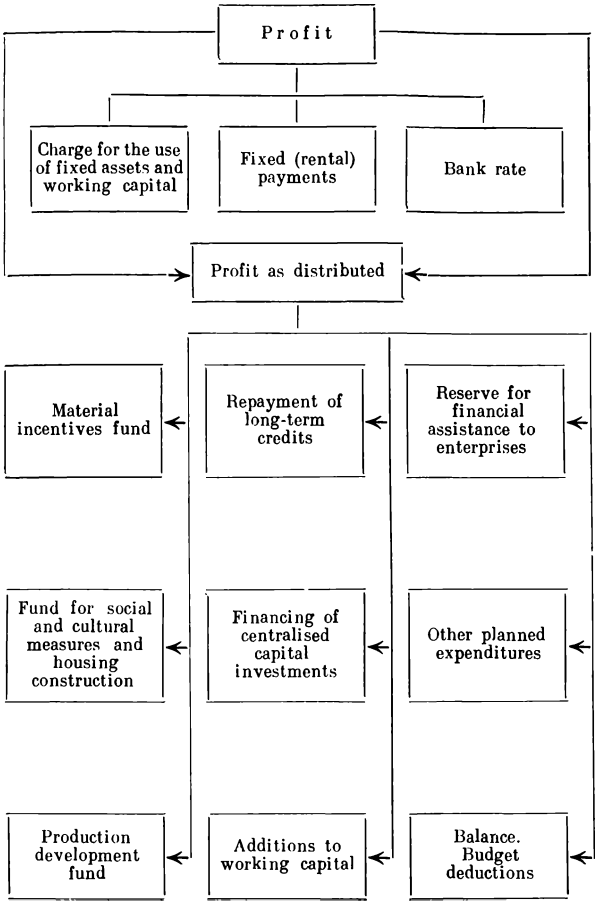
In the post-war period, due to the successful fulfiment of plan targets in respect of output and reduction of costs, profits in the Soviet economy have increased considerably. As a result, profits received by the budget have increased and at the same time the amount retained by enterprises has also sharply risen.

In 1962, the amount of profits directed to increasing production and to other planned requirements of enterprises was more than 17 times greater than in 1946. Even so, the proportion of profits used to finance investment is still insufficient. In order to strengthen cost accounting and raise the interest of enterprises in the successful fulfilment of the accumulation plan, it is necessary that the enterprise's own working capital, its finance for capital construction and other outlays should be met to a large extent out of profits.

The role of profits in the economy is boosted to ensure better fulfilment of the quantitative and qualitative indices of the plan. Enterprises have now increased opportunity to dispose of profits; they use them as incentives for the good work of individual workers and the body of workers as a whole, and to expand production.

To solve this problem, every enterprise must work at a profit and wider use must be made of profits as a means of

DISTRIBUTION OF PROFIT


Profit
Charge for the use of fixed assets and working capital
Fixed (rental) payments
Bank rate
Profit as distributed
Material incentives fund
Repayment of long-term credits
Reserve for financial assistance to enterprises
Fund for social and cultural measures and housing construction
Financing of centralised capital investments
Other planned expenditures
Production development fund
Additions to working capital
Balance. Budget deductions

expanding the reproduction of fixed and current assets at enterprises. This goal is also furthered by improving the practice of forming incentive funds from profits and by increasing the part they play in stimulating the attainment of a high level of performance in the cost-accounting activities of enterprises.

Apart from profits, *depreciation deductions* are an important source of funds for an enterprise and a branch of the economy. Depreciation deductions are divided into two parts, according to their use. The first part is used to finance capital repairs: it amounts to a little over half of the total deductions and to more than 80 per cent in fishing and forestry.

The purpose of capital repairs is to restore in part the instruments of labour in order to secure normal functioning over their working life. When capital repairs are carried out equipment is often modernised on the depreciation fund account.

The second part of depreciation deductions is used to replace, or renew, fixed assets which have gone out of use. This is one of the important sources of investment finance. In this way, these deductions secure not only the simple reproduction of fixed assets but also a part of extended reproduction, because with a continuous increase in the general level of labour productivity, the costs of the new substitute equipment are lower than the accumulated depreciation fund.

From 30 to 50 per cent of the depreciation deductions intended for the renewal of fixed assets goes to the production development fund. Part of the profit and the sum obtained from the sale of property no longer in use also goes to this fund. In 1967 the production development fund will amount to 4,000 million rubles, of which depreciation deductions will account for 2,700 million rubles.

The amount of the depreciation deductions for a coming period is worked out from the value of the average amount of fixed assets in use and the fixed rates of depreciation.

Depreciation deductions earmarked for capital repairs are held in a special account at the State Bank and can be withdrawn only for this purpose. Depreciation deductions to be used for investment are paid into the Construction Bank and State Bank to the amount that has actually been set aside, without regard to the fulfilment of capital works by the economic organisation concerned.

All the fixed assets of an enterprise are state property. It is therefore economically possible and expedient to use depreciation deductions for investments also in other state enterprises and not only in the one from whose account these sums are deducted. For this reason, the practice has been established of redistributing the amounts set aside for depreciation among enterprises over the whole of a branch administration.

Resources created during the process of construction itself are also a source of investment finance. They include: the mobilisation of internal resources; profits and savings from reducing the costs of building and erection work carried out without outside help and income from incidental extraction of minerals, etc.

The profits of building work carried out without outside help are planned as 2.4 per cent of the volume of work, measured at estimate prices. The amount economised is established in relation to the planned reduction of costs for building and erection work. If building is done under contract, the economies resulting from reductions in costs are included in the total amount of accumulation of the contracting organisation concerned. The income from incidental extraction of minerals (e.g., from the sale of coal mined in the course of building) is planned to go to the client, independently of whether the work is carried out under contract or directly.

Net increments to permanent liabilities are also a source of funds for an enterprise and have the same status as the enterprise's own working capital. Permanent liabilities consist primarily of the unpaid balance of earned wages.

As a rule, wages are paid out in enterprises some days after they are earned, e.g., on the 22nd for the first half of the month. Meanwhile by dispatching products and receiving credit for them from the State Bank or, in the case of deliveries within the same town, by receiving payment from the purchaser, the enterprise is fully reimbursed for its planned production costs including the wages. Thus there is always a certain accumulated amount of unpaid wages in the enterprise's account. Permanent liabilities include only the minimum always found in the turnover of an enterprise and usually amount at the most to a week's liabilities in terms of the planned wage bill.

Permanent liabilities also include: liabilities for social insurance; reserves for future payments; payment received from creditors for partially finished goods (e.g., in shipbuilding), and other funds which are a permanent part of an enterprise's turnover.

In the case where a given enterprise's own resources are insufficient to fulfil its plan for increasing output, use is made of redistributed resources from other branch administrations of the ministries. Budgetary grants are used to make up any deficit. The budget provides finance for capital investment; for increasing working capital; for expenditure on training personnel and on scientific research; for operational expenditures and some other purposes.

Expenditure of State Enterprises

According to its economic composition, the expenditure of state enterprises can be divided into *four basic groups:*

(1) economic and operating costs;
(2) expenditure on expanding production;
(3) deductions to special funds and
(4) payments into the financial system.

Economic and operating costs are the most important group. This group can be subdivided into productive expenditure which is reproduced in the value of the product, and expenditure not included in production costs.

The expenditure of enterprises on the production and sale of output is included in production costs, which are that part of the value of the product intended to replace the means of production which have been used up and to pay wages. In other words, they are the money expenditure of enterprises on manufacturing and selling their output.

The basic components of production costs are: wages; expenditure on fixed assets in the form of depreciation; expenditure on raw materials, auxiliary supplies, fuel, electricity, etc.; administrative and managerial costs; and various money outlays.

Production costs structure differs between industries. In the coal and lumbering industries, the basic component of production cost is expenditure on labour (up to 60 per cent), but in food and light

industries the costs of raw materials and supplies predominate, reaching 80-90 per cent of the total cost. In oil extraction, depreciation exceeds 40 per cent of production costs.

Production cost is the basic criterion for evaluating the performance of an enterprise: it is one of the composite indices of the work of industry and other branches of the economy. The planned targets for costs and the records of the fulfilment of the expenditure plan play an organising role in the management of socialist enterprises.

Expenditure on expanding production in each individual enterprise consists of grants for increasing working capital and capital investment.

As a rule working capital increases when output and the sale of output increase.

Capital investment is allocated to the construction of new enterprises, the reconstruction and expansion of existing ones and to restoration work. Sources of investment finance are the enterprise's own fund and the funds of the branch association of the ministry (profit, depreciation deductions, production development fund, economy obtained through lowering construction costs), budgetary appropriations and long-term credits. The transition to the sectoral principle of management of industry in combination with the economic initiative of the republics and an extension of the operational and economic independence of enterprises creates favourable conditions for raising the effectivity of capital investment and lowering building costs.

A part of profits goes to the *creation of incentive funds.* According to the decisions of the September 1965 Plenary Meeting of the Central Committee of the C.P.S.U. profits go to form the material incentive fund, the fund for social and cultural measures and housing construction and some other funds.

The material incentive fund is formed by deductions from profits based on quotas established for long periods, differentiated according to industries, in special cases–according to groups of enterprises. The deductions are established on every per cent by which the sales volume (or profit) in the current plan exceeds that for the preceding year, and also for each per cent of the profitability provided for in the annual plan. The sum of bonuses paid to workers from the wage fund also goes to the material incentive fund. To stimu-

late improvement of the quality of output, part of the profits yielded by mark-ups on the price for the improvement of the output, and for the sale of new high-quality consumer goods is also charged to the fund.

The material incentive fund is spent on bonuses, rendering material assistance to workers and on bonuses paid at the end of the operational year for successful work during that period.

The fund for social and cultural measures and housing construction is used for the building of crèches and kindergartens, for improving cultural services and amenities, and for housing construction. Formerly, the enterprise fund was the main incentive fund.

Deductions for the enterprise fund came from planned and overplan profits. In enterprises where profits were not anticipated in the plan, deductions were made from savings resulting from the reduction of production costs. The amount deducted for the enterprise fund was differentiated by sectors of the economy.

Enterprises in ferrous and non-ferrous metallurgy, the fuel and chemical industries and also enterprises producing and carrying out the primary processing of cement, made the largest deductions: 6 per cent from planned profits and 60 per cent from overplan profits. Machinebuilding and metalworking plants, enterprises in forestry, paper-making, wood-working, glass and several other industries, deducted 4 per cent from planned profits and 50 per cent from overplan profits for the fund. Textile enterprises deducted 2 per cent from planned and 40 per cent from overplan profits. Enterprises in all the remaining industries deducted 1 per cent and 30 per cent respectively.

The total amount of deductions for the enterprise fund did not usually exceed 5.5 per cent of the wage bill for personnel engaged in industrial production, taking into account plan fulfilment in respect of commodity output.

For enterprises making technologically novel products deductions into the fund were at higher rates. Thus, in machinebuilding and metalworking enterprises in which technologically novel products make up from 10 to 15 per cent of the overall volume of output, the maximum size of the deduction for the enterprise fund was increased to 6 per cent. If, however, these goods made up more than 25 per cent of output then up to 7 per cent of the annual wage bill of personnel engaged in industrial production was deducted from profits for the fund.

The enterprise fund was used to take steps to introduce new machines and methods and to expand production (not less than 20 per cent); to construct dwellings and social amenities and to repair housing (not less than 40 per cent); the remaining part (up to 40 per cent) was used for bonuses to workers, to improve cultural and other services for the workers, to provide places in rest homes and sanatoria and to render temporary assistance to workers.

All profit obtained from the sale of consumer goods produced from remnants and waste goes to the consumer goods fund on the condition that:

(a) the plan is fulfilled in respect of quantity, assortment, grades and quality of output;

(b) the sale of the consumer goods is underwritten by orders from or contracts with trading and selling agencies;

(c) in the manufacturing of the consumer goods, supplies complying with approved standards plus rejected and subquality raw materials constitute no more than 25 per cent of the overall value of raw materials and supplies.

The consumer goods fund is used to expand production, improve the quality and appearance of consumer goods, to build and repair housing, to award bonuses to the best workers engaged in the production of consumer goods from waste and also to satisfy the needs of the whole enterprise for social amenities.

Payments into the financial system are an important way by which the income of state socialist enterprises is redistributed and their work controlled by the state. Enterprises and economic organisations pay into the budget turnover tax, deductions from profit, and also the surplus of their own working capital. In 1966 a charge will be introduced for the use of productive assets. It will ultimately become the principal form of payments into the budget and the most important source of the state's centralised financial resources. In addition, that part of an enterprise's profits and depreciation deductions intended for capital construction goes into the Construction Bank and State Bank. Contributions for social insurance based on the wages of factory and office workers go into the social insurance budget.

Financial Plans of State Enterprises and Ministries

The financial plans of enterprises are drawn up in accordance with the indices of the state national economic plans.

The financial plan is compiled in the form of a balance sheet of income and expenditure. It fixes the receipts and expenditure of resources and is a reflection in money terms

of the quantitative and qualitative indices of the production plan.

The financial plans of enterprises show the results of economic activity, expenditure on expanding production and the sources of finance for this. The mutual relations with the budget are also established.

In the process of compiling financial plans, the mutual reconciliation of the separate production indices of the plan is achieved; reserves which can be used for further growth of output and increase of profitability of enterprises are brought to light. The financial plan is also used to establish control over the economic and financial work of enterprises.

The financial plans are drawn up directly in enterprises and in economic administrative regions. This allows the specific character of each enterprise in the field of production, technical equipment, supplies and sales to be reflected in the financial plan.

The most important thing required of the financial plan is that it should establish the organic interdependence between financial and production indices. The financial outcome of an enterprise's work should be directly dependent on the volume of output produced and sold; on the fulfilment of targets for costs, assortment and grades; and on the level of fixed prices.

Carrying out the principle of continuity in the field of financial planning allows real account to be taken in the long run of the return from new machines and methods, of the increases in profitability based on the growth of labour productivity, and of improvements in the production process. Furthermore, the most economic and expendient way of putting monetary resources to use, of concentrating resources on the most important national economic aims and of carrying out other measures, can be determined over a long period.

The financial plan (the balance sheet of income and expenditure) of an enterprise, branch administration or ministry, is compiled for a year, subdivided into quarters.

The balance sheet of income and expenditure of enterprises is made up of three parts: income, expenditure and interrelations with the budget. The income section of the plan includes turnover tax and the enterprise's or organisation's own income, i.e., its profits from all aspects of economic activity, depreciation deductions and net additions to perma-

nent liabilities and other income, as well as moneys received for training personnel, scientific research and the maintenance of kindergartens. The expenditure section includes the costs of investment and capital repair, the net increase of working capital, the cost of operational expenditure and similar costs, and deductions into funds. Interrelations with the budget include obligatory payments and grants for stated measures and purposes.

Characteristic of the balance sheet of income and expenditure is the economic interdependence of its separate items, caused by the fact that all planned expenditures have corresponding sources to cover them. In particular, capital investment is covered by depreciation deductions for this purpose, by the mobilisation of internal resources in capital construction, by profits and economies in building and erection work carried out directly by the enterprise, by part of the profits from the main work of the enterprise and by budgetary grants and long-term credits to cover the deficits. The net balance of the financial relations of an enterprise (or industry) with the budget is equal in amount to the excess of income over expenditure or of expenditure over income.

According to their economic content all the income and expenditure items of the financial plan can be subdivided into four main groups:

(1) Income and expenditure resulting from operational activity and from an increase in working capital.

(2) Income and expenditure related to the reproduction of fixed assets (depreciation deductions, profits and savings resulting from reducing the costs of capital works carried out directly, the mobilisation of internal resources in capital construction, outlays on capital investment and capital repairs).

(3) Operational expenses covered by budgetary grants (expenditures not included in production costs and not connected with expanding the activity of the enterprise, and also expenditure on various state measures, e.g., forest protection).

(4) Expenditure on social and cultural measures–the upkeep of kindergartens, the training of personnel, scientific research work–these are financed for the most part from the budget.

One cannot regard the balance sheets of income and expenditure of the branch administrations and of the ministries,

as being simply the sum of the financial plans of the enterprises subordinated to them. The indices of the aggregate financial plan are considerably broader because it reflects all aspects of economic activity and also expenditure on and income from measures carried out centrally.

The balance sheet of income and expenditure for a planned period is compared with the indices of the planned balance sheet for the preceding year and the report on performance. The plan for the previous year is amended in the light of governmental decisions taken after the financial plan has been approved (e.g., the allocation of additional grants, an increase in the production programme, the transfer of enterprises into and out of the branch administration concerned).

An analysis of the balance sheet of income and expenditure is a component part of financial planning.

In the process of financial planning two basic methods of calculating indices are used: the direct calculation method and the analytical method (the coefficient method).

In the financial plans of enterprises and economic organisations in different industries, there are special features resulting from the nature of the work of these enterprises and their relations with the financial and credit systems.

Enterprises subordinated to local authorities enjoy considerable financial and credit privileges. In particular in addition to the amounts approved in the investment plans up to 25-35 per cent of profits of industries of regional or territorial subordination may be used for the development of local industry, to construct housing and social amenities and for the welfare of districts and towns. As a rule, 65 to 75 per cent of the profits of these enterprises is paid into local budgets (after the deduction has been made for the enterprise fund).

This way of using profits fosters a material interest among local Soviets in improving the quantitative and qualitative indices of the work of local industry and thus stimulates efforts to expand the output of consumer goods.

The special features of financial planning in trade organisations primarily affect the computation of profits and the planned requirements of their own working capital. The profits of trade are calculated as the difference between the permitted trading margin and the planned distribution overhead. A proportion of the requirement of trade organisations in own working capital is covered from outside (50 per cent

of the working capital quota is obtained from the State Bank credit on turnover).

The financial plans of housing and municipal enterprises reflect the special features of their relations with the budget: some housing and municipal enterprises which are comparatively small in size are not transferred to cost accounting but are financed on an estimate (i.e., all income received by them goes into the budget and all expenditure on expanding their work and on current maintenance is paid out of the budget). In contrast with industry budgetary grants for developing housing and municipal services considerably exceed payments by this sector into the budget. This is primarily a result of the high rate of housing construction in the U.S.S.R. and the establishment of services and amenities in towns and settlements. This is inseparably linked with carrying out the Programme of the Communist Party in the sphere of maintaining a constant increase in the material well-being of the Soviet people.

THE SPECIAL FEATURES OF FINANCIAL ORGANISATION AND PLANNING IN STATE FARMS. The Programme of the Communist Party of the Soviet Union emphasises the fact that state farms are playing an ever increasing role in developing agriculture, they are the leading socialist enterprises in the countryside and are called upon to serve as an example to collective farms of progressive scientific and economically profitable methods of managing social production, as well as serving as an example of high culture and productivity of labour.

In the financial organisation and planning of state farms the essential factors are the length of the production cycle, the irregular and seasonal nature of costs, and the great importance of internal turnover (a considerable part of the funds of state farms are formed from their own production).

The profits of state farms are fixed as the difference between the proceeds from crops and livestock output which is sold and its costs. Insofar as the products of state farms are sold to the state at zonal delivery prices and to public catering bodies at the planned cost, but not exceeding the state retail prices after deducting the rebate to trade agencies, the size of profit depends not only on the volume of sales, current prices and the costs of individual types of output but also on the direction of sales.

The special character of agricultural production directly influences the structure and contents of the working capital of state farms. In agriculture, working time constitutes only a part of production time. Working capital is spent irregularly in the course of the whole year but it returns within a short period, determined by natural conditions. Because of this, large stocks of agricultural products are necessary to maintain the production process from one harvest to the next. As a result, with enterprises of identical size, a larger quantity of working capital must be advanced for a longer time in agriculture than, for example, in industry. A high proportion of the working capital of state farms consists of resources invested in work in progress in crop production and livestock rearing, of reserve stocks of seed, and of certain other items specific to agriculture.

A distinctive feature of the organisation of the working capital of state farms is the fact that a considerable part of the components of working capital do not come from outside but directly from their own production (seeds and seedlings, young livestock, etc.), and are drawn into the sphere of production, bypassing the sphere of circulation.

The extended reproduction of the fixed assets in state farms, as in other branches of the economy, is effected by means of investment. The special feature of investment in state farms lies in the fact that it also includes the costs of creating a basic herd (the transfer of young animals reared in state farms to the basic herd, the purchase of productive livestock from outside and the acquisition of fully grown animals, free of charge, from other state farms, paying only the delivery costs).

The sources providing the finance for the basic herd are: profit, depreciation deductions on draught animals, resources from rejected livestock, and budgetary grants.

In the financial plan of a state farm, grants are included for outlays on measures required by the state–for veterinary work and hygiene, land improvement and various reclamation works.

The necessity of drawing up a planned balance sheet of working capital at the end of the planned year arises in connection with the fact that a considerable part of the working capital of state farms is created out of credit. This balance sheet shows all the needs of working capital and the sources

which are to cover them–both the farm's own resources and loans.

The socialist state renders considerable financial aid to state farms. In the seven years, 1959-65, it has been planned to devote 30,000 million rubles from the budget to the development of state farms, including 15,000 million rubles for capital investment.

Chapter 8

FINANCIAL SYSTEM OF COLLECTIVE-FARM AND CO-OPERATIVE ENTERPRISES AND ORGANISATIONS

Special Features of Financial Organisation in Collective Farms and Consumer Co-operatives

Collective-farm and co-operative property as one of the types of socialist property, is similar in its economic character to state property. The Programme of the C.P.S.U. emphasises that the further advance of the Soviet countryside towards communism will proceed through the development and improvement of the two forms of socialist agriculture–collective farms and state farms.

"Economic advancement of the collective-farm system," states the Programme of the C.P.S.U., "creates the conditions for the gradual rapprochement and, in the long run, also for the merging of collective-farm property and the property of the whole people into one communist property."

At the same time the special features of the two forms of socialist property determine the differences in the content and organisation of the financial systems of state enterprises on the one hand and collective-farm and co-operative enterprises on the other.

The most important features characterising the financial system of collective farms are as follows:

(1) The financial relations of collective-farm and co-operative enterprises with the state belong to the sphere of the redistribution of the national income. In conformity with

this the tax method is used to withdraw part of collective-farm and co-operative income. Collective farms and consumer co-operatives pay income tax, the amount of which is fixed in advance. A certain part of the net income created in collective farms contributes to the centralised monetary fund of the state by means of the system of purchase prices fixed by the state. As has already been pointed out above the relations of state enterprises with the budget are based on different principles. They pay a part of profits received into the budget: this amounts to the sum left over after the requirements for forming incentive funds and for covering the costs of increasing output have been met.

Furthermore, state enterprises receive non-returnable budgetary grants for financing planned projects. In relation to collective-farm and co-operative enterprises, however, the Soviet state advances long-term, returnable loans.

(2) In collective-farm production, assets circulate, to a considerable extent, in their physical form (seeds, fodder reserves, the distribution of output to the members of the collective farm).

(3) Collective-farm and co-operative enterprises create productive assets from their own resources and to some extent from long- and short-term credits. The reproduction of fixed assets is provided for out of the farm's non-distributable assets and from bank loans advanced for a long period (up to 15 years).

(4) Collective farmers' remuneration depends directly upon the size of the income both in kind and money, of the collective farm concerned. This means that remuneration is ensured by the level of the development, not of the national economy as a whole, but of the social production in the collective farm concerned.

Financial System of Collective Farms

Collective property is the fundamental source for the extended reproduction of the collective-farm economy and the growth of collective farms' incomes. The Soviet state renders every kind of assistance to collective farms.

In recent years the Communist Party and the Soviet Government have carried out a series of far-reaching measures designed for the further advancement of agriculture. In 1955,

a new planning system was introduced for agricultural production which encouraged collective farms and collective farmers to take more initiative in the organisation of production. Collective farms have been given the opportunity to plan and manage their farm, taking local conditions into account.

In 1956, the Central Committee of the C.P.S.U. and the Council of Ministers of the U.S.S.R. recommended that collective farms should themselves supplement and change individual articles of the Model Rules of the Agricultural Artel in accordance with the practical conditions of collective-farm production. The collective farms were also recommended to distribute at monthly intervals throughout the year, at the decision of the general meeting, an advance payment to collective farmers on work-day units of not less than 25 per cent of the money income from all branches of the socialised sector and 50 per cent of the money resources received as advance payments for the sale of output to state agencies. The institution of monthly advances to collective farmers helps to increase their interest in the development of the socialised sector and the growth of labour productivity.

As a result of the reorganisation of the machine and tractor stations and the sale of machinery to the collective farms, there was a marked improvement in the material and technical basis of collective-farm production. State procurement and purchasing prices for agricultural produce have been considerably increased and a transition has been made to a unified purchasing system and unified purchasing prices. In 1961, the prices of spare parts, agricultural machinery and petrol were lowered; income tax concessions were granted; the cost of credit was reduced and the paying off of collective-farm loans was deferred. The price cuts diminished the expenditure of collective farms on acquiring spare parts, machinery and petrol by 539 million rubles a year. In the years 1961-65, 80 per cent of all the taxable income of collective farms from the sale of basic animal products was exempted from income tax. As a result of this the expenditure of collective farms diminished by 887 million rubles in a year. Collective-farm payments for machinery acquired from MTSs were also deferred for a period of 5-10 years.

In 1962, prices of building materials, metals and metal goods were lowered for the collective farms: this produced

a saving of 250 million rubles a year. In order to raise the material interest of state and collective farms in making a sharp increase in the production and delivery of products to the state, state purchasing prices of animal products were increased by an average of 35 per cent This removed the discrepancy which existed between purchasing prices and the cost of collective-farm animal products. Now purchasing prices fully cover production costs and, in addition, secure the accumulation necessary for extended reproduction.

In the period following the September 1953 Plenary Meeting of the Central Committee of the C.P.S.U., the sown area was considerably extended; the number of cattle increased; the yield of agricultural crops and the productivity of livestock rearing increased; the volume of gross and commodity output expanded and production costs fell.

The following data indicate the strengthening of the economy and financial system of collective farms.

(Thousand rubles)

	1940	1953	1960	1963
Average for one collective farm				
Money income	8.8	54.7	305.2	415.2
Non-distributable assets	11.8	77.0	448.3	773.4*
Average for 100 collective-farm households				
Money income	11.1	25.2	78.1	99.3
Non-distributable assets .	14.9	35.4	114.7	185

* Taking into account the revaluation of fixed assets.

These averages for the country are considerably exceeded by the leading collective farms.

Collective farms have been transformed into large-scale mixed-farming concerns. Their technical equipment has increased; large numbers of field-crop, livestock and mechanical experts have been trained and there has been a sharp increase in the money income and non-distributable assets of collective farms. In 1953-60, gross output valued at comparable prices has increased by 50 per cent, money income and non-

distributable assets have grown by almost 200 per cent and the remuneration of collective farmers has roughly doubled.

As a result of the reorganisation of machine and tractor stations, the sale of machinery to collective farms and the introduction of the new system of deliveries of agricultural products, an essential change has taken place in the relations between the state and collective farms and in the financial organisation of collective farms. In the collective farms there has been a considerable expansion in commodity-money relations. The composition and structure of fixed assets in collective farms has changed: the proportion of agricultural machinery in the total has increased. The working capital of collective farms has increased sharply as a result of the necessity of creating stocks of fuel, lubricants and repair materials and spare parts. The credit links between collective farms and the institutions of the State Bank have expanded in respect both of long-term credit and of short-term credit advanced for seasonal stocks and seasonal production costs.

The Programme of the C.P.S.U. declared the policy of systematic intensification to be the chief method of expanding agriculture. This can be achieved by improving the use of the land; adopting the interrow system of cropping and radically changing the structure of the sown area; mechanising agricultural production further; and by increasing the material interest of collective farms and farmers in the results of their labour.

Bringing about the further development of the collective-farm system urgently requires the introduction of cost-accounting methods and the reinforcement of the role of finance in collective-farm production. More and more significance is attached to the struggle to reduce production costs, to improve efficiency in the use of productive assets and to increase accumulation.

Cost-accounting relations in collective farms include:

(1) the relations between collective farms and the economy as a whole. The chief role in this is played by putting systematically into practice the principle of equivalency in commodity exchange between the state and collective-farm sectors of the economy. This is put into practice, first and foremost, by fixing economically justified prices which make extended reproduction in collective farms possible;

(2) relations between the separate branches of collective-

farm production. Determining the correct proportions for the distribution of material and labour costs between branches, keeping accounts of transactions within the farm and instituting a regime of the most stringent economy are of chief importance here;

(3) the relations between the individual production units within a given branch of the collective farm, i.e., cost-accounting within a team.

THE MONEY INCOME OF COLLECTIVE FARMS AND ITS DISTRIBUTION. The money proceeds from the off-farm sale of crops and livestock products are the chief sources of the money income of collective farms. These account for about 90 per cent of all monetary receipts.

Collective farms sell products to the state at unified purchasing prices, which are zonally differentiated. The amounts of deliveries due to the state of the main agricultural products, in particular, grain, potatoes, meat, milk, etc., are calculated on a per hectare basis. The sales quotas, too, are differentiated according to the branches of farming in which the collective farm specialises.

Up to 1958, a multiplicity of prices for agricultural products existed: products which were given up by collective farms as compulsory deliveries were paid for at lower procurement prices; products sold as state purchases received higher purchasing prices; products given as payment in kind went to reimburse the state for expenditure incurred by MTSs in carrying out work by mechanical means for collective farms; products covered by contracts were paid for at special prices.

From 1961, state purchases of grain, industrial crops, meat, milk, other agricultural products and raw materials have been made on the basis of contracts. These are concluded for a period of two to five years (separate for each year), in accordance with the plans for state purchases and the long term plans for the development of agricultural production. The practice of contracts helps to make the relations between agriculture and industry conform more closely to the plans and to reveal the potentials in agriculture.

The system of state purchasing prices ensures that part of the net income of collective farms is put at the disposal of society as a whole.

The state helps collective farms sell their surplus agricultural produce through consumer co-operatives. Here, ceiling

purchase prices and contractual prices are used. On the collective-farm market, prices are determined through the interaction of supply and demand.

With the growth of collective-farm produce the monetary side of the business of collective farms has developed rapidly and their money income has increased–this accounts for the growing role and significance of finance in the economic activities of collective farms. From 1950 to 1960, the money income of collective farms increased by more than 500 per cent, while the sown area hardly altered. In 1963, the monetary income of collective farms was 16,100 million rubles.

The changes which collective-farm property is undergoing are reflected in the distribution of collective-farm income. To the extent that collective-farm property is being transformed into public property, the earnings of collective farmers are approximating all the more closely to wages in state agricultural enterprises. The transition by the advanced collective farms to a monthly, guaranteed money remuneration for collective farmers considerably raises their economic efficiency. This means that the general meeting of collective farmers determines beforehand a set scale for their remuneration, up to the beginning of the following year.

The distribution of income in collective farms is subordinate to the problem of securing a continual expansion of the productive, insurance and public funds and of improving the living standard of the collective farmers on the basis of increasing their incomes from the collective economy. The Programme of the C.P.S.U. states: "The proper ratio of *accumulation and consumption* in the distribution of incomes is a prerequisite of successful collective-farm development."

State and local taxes, insurance deductions and monetary loans are paid off out of money income first. Next, the necessary resources are expanded upon the needs of production: purchases of mineral fertilisers and seeds, current repairs of agricultural implements and buildings, petrol, fuel and other requirements of production. Then, resources are earmarked for replenishing the non-distributable assets of the collective farms. Not more than 2 per cent of money income is used to cover administrative costs. A part of the money income of collective farms goes to the training of personnel, the organisation of crèches and playgrounds, to extending radio facilities in villages and for other amenities.

A part of money income goes to establish a fund to pay advances to collective farmers. From one to five per cent of money income is deducted to cover current production expenditures at the beginning of the year, and to ensure the prompt payment of amounts due for work-day units. Finally, a part of the money income is distributed amongst the collective farmers according to the number of work-day units earned.

The distribution of money income in collective farms therefore presupposes that it goes to form the state monetary fund, to replenish their collectively-owned funds, to cover monetary production costs, and make payments to collective farmers. While fulfilling their financial obligations to the state and observing the norms of deductions to the farm's public funds, collective farms strive to augment their payments to collective farmers in order to increase their welfare and their material interest in developing and strengthening the collective-farm economy.

THE PRODUCTIVE EXPENDITURES AND PRODUCTION COSTS OF A COLLECTIVE FARM. The planning and recording of productive expenditure in collective farms and the forms of control over them have important characteristic features. Seed, fertilisers, and fodder are, as a rule, produced on the farm. Up to recent times they were not valued in money terms and were replaced directly, in physical form, out of the gross product obtained. The work done by collective farmers is calculated in work-day units (in many collective farms it is valued in money terms) and is paid for both in money and in kind. The purchasing price of seed and supplies, the depreciation of fixed assets and the wages of specialists and workers hired from outside the farm are expressed directly in money terms.

The introduction of cost accounting into collective-farm production creates the conditions for a further increase in the output of agricultural produce and the lowering of its cost. Each collective farm must not only obtain as large an amount of produce as possible from the allotted land but also conduct its business rationally and economically.

THE NON-DISTRIBUTABLE ASSETS OF COLLECTIVE FARMS. The non-distributable assets of collective farms are that part of collective-farm property which is not subject to distribution according to work done nor to repayment to collective farmers leaving the artel. They are exceptionally im-

portant for promoting further advances in organisation, in the economic strengthening and development of the collective farm, the increase of labour productivity, in raising the material welfare of collective farmers and in transforming collective-farm and co-operative property into communist property.

The collective-farm peasantry itself is primarily interested in increasing non-distributable assets. With the growth in non-distributable assets, the technical equipment and labour productivity will increase, and the socialised sector of the collective farms will develop.

At the beginning of the collectivisation period, non-distributable assets amounted to only 150 million rubles, in 1932 they amounted to 470 million rubles and towards the end of 1961 they had reached 20,500 million rubles (or 26,000 million rubles, taking into account the revaluation of fixed assets). The growth of non-distributable assets is accompanied by substantial qualitative changes in them. First and foremost there has been a fundamental shift in the ratio between the value of the socialised property of the members of the collective farm and the value created by joint collective labour, to the advantage of the latter. In their content and structure, the non-distributable assets are approaching more nearly to publicly owned productive assets.

The non-distributable assets of a collective farm include: agricultural equipment, draught and productive stock, production and other buildings, subsidiary undertakings, irrigation equipment, means of transport, perennial plantations, and supplies and monetary resources directed to expanding the collective economy.

With the monetary resources of the non-distributable assets collective farms acquire agricultural machinery, build livestock departments, irrigation and drainage canals, clear land of bushes, and construct power stations, schools, hospitals, and the other structures necessary for developing the economy of collective farms and for improving the welfare of collective farmers.

A significant place in the structure of non-distributable assets is now occupied by agricultural machinery—tractors, harvester combines, and complex agricultural machines. Non-distributable assets play an important role in the development of intercollective-farm joint enterprises.

Annual deductions from the money income of collective farms are the chief source for the growth of non-distributable assets. Formerly, in accordance with the Model Rules of the Agricultural Artel these deductions amounted to 15-20 per cent of money income. In order to obtain the resources necessary for collective farms to acquire tractors and agricultural machinery, to expend the collective economy further, to build day and boarding schools and hospitals, it was recommended that the size of deductions for non-distributable assets should be increased. Many collective farms, in their concern for the faster development of the collective economy, deduct 25 per cent and more for the non-distributable assets from their total money income. The deductions from money income for the non-distributable assets grew from 900 million rubles in 1953 to 3,200 million rubles in 1961, or by nearly 300 per cent. This shows the increase in the marketability and profitability of collective-farm production, and the growth in accumulation within the farm.

Besides this, monetary entrance fees ranging from two to four rubles per household and also a part of the value of the socialised property of members of the artel (from one-quarter to one-half depending on the wealth of the household), were used to form and increase the non-distributable assets of collective farms. It must be noted that the proportion of the initial share contributions amounts to only two per cent of the present non-distributable assets of collective farms.

Non-distributable assets also increase as a result of the growth of the commonly-owned animal herds. When the collective farms' plan for increasing the head of livestock and horses is not fulfilled, a part of the receipts from the sale or slaughter of animals is deducted for the non-distributable assets so that the planned increase in head of livestock is achieved.

One source of growth of the non-distributable assets of collective farms is the participation by the members of the collective farm in erecting buildings and structures, in planting orchards and vineyards, and in making implements and equipment needed by the collective farm.

Sums awarded on insurance claims under compulsory and voluntary insurance schemes against the loss of collective-farm property, enter in full into the non-distributable assets.

Interest paid to the collective farm for keeping money in the investment account, also goes to the non-distributable assets.

On the basis of a rapid growth of the non-distributable assets, collective farms have the opportunity of making large capital investments. In the post-war years the volume of collective-farm investments reached about 24,000 million rubles, excluding expenditure on acquiring tractors and agricultural machinery previously owned by the MTSs. As a result there has been a considerable increase in the amount of machinery available for collective-farm production. At the beginning of 1961, collective farms had at their disposal 1,050 thousand tractors (in terms of 15 hp units), 267,000 harvesting combines, and more than 400,000 lorries.

The free monetary resources in the non-distributable assets earmarked for capital investment are kept in an account at the State Bank, and are managed by the Board of the farm. This allows for a constant financial supervision of receipts of money and the uses to which they are put, and the interest on these sums goes to increase the income of collective farms; it also helps to expand the credit resources of the bank. Thus, keeping the money resources of the non-distributable assets in an account at the State Bank is mutually profitable to the collective farms and to the state.

In the course of constructing a communist society, the level of socialisation in collective farms will be raised and collective-farm and co-operative property will draw closer to the property of the whole people. The basic ways in which collective-farm property develops to the level of public property are as follows.

(1) The non-distributable assets of collective farms will be further increased from accumulation within collective farms, making possible the extended reproduction of fixed capital.

(2) With the steady development and consolidation of the collective-farm economy and the creation of an abundance of products, material prerequisites will be created under which private plots lose their significance as a source for satisfying the personal requirements of the collective farmers in agricultural produce.

(3) Production links between collective farms will develop on a wide scale. Intercollective-farm building organisations

and enterprises for the processing of agricultural products and for producing building materials will be established on a broader scale, as will repair, motor-vehicle and tractor depots. Social amenities (schools, hospitals, boarding schools, sanatoria, village clubs, etc.) will be constructed by joint efforts.

(4) Collective-farm means of production will be merged with those of the state through the joint construction of power stations, irrigation and drainage works, forest belts, roads, etc.

LONG-TERM CREDIT TO COLLECTIVE FARMS. Long-term credit for capital investment is an important form of state aid to collective farms. Up to April 1959, the Agricultural Bank made long-term credit advances to collective farms but then its functions were transferred to the State Bank. Bank loans amount to more than 20 per cent of the total outlay of collective farms on investment.

Long-term credit is granted to collective farms for a period of up to 15 years for the following purposes: to construct and provide equipment for collective buildings, to purchase tractors and other agricultural machinery, to electrify the collective-farm production process, to make perennial plantations, to improve the meadow land and pasture, etc. Every collective farm can obtain loans on the condition that the projects for which the credit is used appear in the production plans and that the resources for carrying them out are in the production and financial plans of collective farms.

The State Bank consistently checks the use of bank loans, the building process and the commissioning of projects, the formation, custody and expenditure of non-distributable assets, the state of accounting and financial discipline and the paying off of bank loans when due.

In the period 1953-62, the overall sum of long-term credit trebled.

THE WORKING CAPITAL OF COLLECTIVE FARMS. The working capital of collective farms includes productive stocks —seeds, fodder, fertiliser, repair and other supplies, monetary resources and products for sale and distribution according to labour performed.

In collective farms there are the following sources for creating working capital: the basic and reserve funds of seed and fodder and other income in kind used for current

requirements; the part of money income used for production needs and for creating renewable stocks of supplies for production; deductions from money income to finance anticipated expenditure at the beginning of the year, and the working capital loaned by the State Bank and advanced to cover state purchases.

The credit relations between the State Bank and the collective farms are expanding and are approaching ever more closely in form and procedure to the methods used to supply credit to state agricultural enterprises—the state farms.

THE FINANCIAL SYSTEMS OF INTERCOLLECTIVE-FARM ORGANISATIONS. Joint enterprises and organisations help collective farms to reach a successful solution to important problems. First, they are a considerable help in extending the material and technical basis of collective-farm production. In particular these enterprises are more efficient, speedy, and incur the least expenditure in erecting power stations and other installations serving several collective farms. Second, they play a large part in the development of social consumption funds (the joint construction of schools, hospitals, etc.), and in raising the cultural standards of the countryside. Third, intercollective-farm enterprises and organisations are a higher level of socialised property.

Intercollective-farm organisations can be distinguished by their nature and the scope of their activities. At the beginning of 1961 there were in the country three thousand intercollective-farm organisations of which 700 enterprises and organisations were of a mixed nature and the rest were limited to one type of activity. There have been formed joint construction organisations, enterprises for producing building materials, power stations, repair shops, centres for fattening livestock, incubator stations and enterprises for processing agricultural products.

Intercollective-farm organisations carry out their activities on the basis of cost accounting. They have means of production at their disposal and are answerable for their utilisation and maintenance. They are also called upon to make their work profitable.

The size of the share contributions of the participating collective farms is fixed according to various principles: in one case it is proportional to the existing arable land, in another to the volume of construction work carried out for the col-

lective farms, in a third–to the amount of capital investment of the collective farms, etc. The contributions can be made both in money and in kind. For example, brick yards, building mechanisms, equipment, vehicles and other property are handed over to an intercollective-farm organisation.

The meeting of delegates is the supreme administrative organ. It determines the extent of the participation of each member, approves the production and investment plans, the expenditure estimates and the annual statement and balance sheet, and decides the questions of profit distribution and the covering of losses. The day-to-day management of the activities of intercollective-farm organisations is carried out by a Council which is elected by the meeting of delegates, as a rule for two years.

Side by side with district interfarm organisations, co-operative organisations are being formed on a regional scale to provide overall guidance for joint organisations and the co-ordination of their activities.

FINANCIAL PLANNING. A production and financial plan is drawn up in the collective farms. It is based on the production and financial targets of teams, departments and subsidiary enterprises in accordance with the size of the sown area, the yield, the increase in the head of livestock and its productivity, etc. The drafting of the production and financial plan presupposes that the planning and the recording of cost of collective-farm output are properly organised.

The unified production and financial plan of a collective farm consists of the plan for production and carrying out agrotechnical measures, the plan for capital investment, the costing of output, the financial plan, the plan of economic and organisational measures and the production and financial targets for teams and departments.

A component part of the production and financial plan of collective farms is the *estimate of income and expenditure* which is drawn up annually, with a quarterly break-down, on the basis of production indices. It consists of four interrelated sections.

In *the first section* estimates are made of monetary receipts from the sale of output, other money income and its distribution (tax and insurance payments, outlays on production needs, deductions for the non-distributable assets and the

funds for cultural purposes, the distribution of money income according to work-day units, etc.).

In *the second section* the volume and sources of finance for capital investment are planned. The expenditure part of this section shows: the repayment of resources received previously for investment in the form of short- and long-term loans; capital outlays and repairs in the coming year.

The third section covers the receipt and expenditure of resources on cultural activities. The sources of finance for the fund for cultural purposes are: the sum carried over at the beginning of the planning year, deductions from money income, and the receipts for cultural purposes from the members of the collective farm (e.g., payments by parents for the maintenance of their children in kindergartens), etc. Expenditure on cultural requirements is fixed for each type of measure (on training personnel, organising crèches and playgrounds, the extension of radio facilities and the paying of allowances and pensions for old age and sickness).

The fourth section of the income-expenditure estimates includes future settlements with the credit system and various organisations and individuals.

On the basis of a money evaluation of the overall gross product and of a calculation of costs, collective farms determine the financial results of their activities in the form of profits and losses.

The production and financial plan is approved by the general meeting of collective farmers.

Financial System of Consumers' Co-operatives

Co-operative trade in the U.S.S.R. is carried out by consumers' co-operatives. Consumers' co-operatives are the main trading agency in the countryside. The share of co-operative trade in the total volume of retail trade turnover in the U.S.S.R. amounts to about 30 per cent.

In 1960, 23,700 million rubles worth of goods were sold to the population through the co-operative trade network (including products sold through public catering). At the beginning of 1961, there were 312,000 organisations for co-operative retail trade and 43,000 public catering establishments.

In form and method of organisation and in their standard of technical equipment, consumers' co-operatives are approaching more closely to state trade.

Consumers' co-operative plays an important role in establishing economic connections between state industry and agriculture. Especially significant is its role in procuring agricultural produce.

The primary unit in consumers' co-operative is the consumers' co-operative society. In the U.S.S.R. there are more than 20,000 consumers' co-operative societies. Unions of consumers' co-operatives give guidance to the consumers' societies and organise the purchase of goods and their delivery to the countryside for selling wholesale to consumers' co-operatives, and they also sell foods in retail.

The Central Union of Consumers' Societies (Centrosoyuz) is the leading organisational and economic centre of consumers' co-operatives in the country, uniting the unions of consumers' co-operative societies of all the republics of the U.S.S.R.

The nature of co-operative property determines the features peculiar to the financial organisation of consumers' co-operatives. Consumers' co-operatives create a series of funds for special purposes.

The shareholders' fund of a co-operative is created out of the *contributions* of its members, which are fixed by the general meeting of shareholders. The monies in this fund are one of the chief sources of finance for the working capital of consumers' co-operatives.

Fixed assets are created from the entrance fees paid by the shareholders, non-returnable fixed assets received from the state, other stocks of materials and assets and deductions from profit, etc. The purpose of the fixed assets is to increase working capital, to replenish the funds for repair and building and to cover losses due to marking-down prices of commodities and supplies.

In cost-accounting enterprises which are founded upon an independent accounting system, an *enterprise fund* is formed. The *fund for financing capital investment and capital repair* has considerable significance in the reproduction of the fixed assets of consumers' co-operatives. It is formed out of depreciation deductions, surplus internal working capital and a part of profits (in the unions of consumers' co-operatives). The fund for cultural purposes is formed out of deductions included in the overheads, and from profits. The resources of this fund are used to train personnel and to finance cultural and educational projects. Not less than 20 per cent of the fund is spent in consumers' co-operatives and the rest is utilised centrally by superior organisations. The *fund for financing social and cultural measures* is formed from a part of profits and goes to finance kindergartens, crèches,

clubs, and to train personnel and increase their skills and, where necessary, to render material assistance to shareholders. In order to stimulate more efficient work, a part of profits in the primary units of consumers' co-operative (not more than two per cent) goes to form a *fund for awarding bonuses to the best workers*. Besides these there are other funds for special purposes.

The incomes of village consumers' co-operatives consist of trading margins and surcharges. Rebates are allowed on certain commodities (grain, oil-products, etc.) for those consumers' co-operatives which are located more than 10 kilometres from the district or regional union of consumers' co-operatives.

As in state trading organisations, trading margins and surcharges reimburse the overheads of co-operatives and also serve as a source for profit formation. However, profits are distributed in co-operatives on principles differing from those in state trading organisations.

A rural co-operative–Selpo–first of all pays out income tax (35 per cent of profit actually received). All the remaining profits are distributed at the decision of the general meeting of the shareholders or their delegates. Not less than 20 per cent is distributed amongst the members of the consumers' co-operative in the form of additions to their share contributions. A considerable part of profits is used for investment in fixed assets. Deductions are made for training personnel, for mass cultural measures and for awarding bonuses to workers in the village consumers' co-operatives. A part of profits is deducted for the district union of consumers' co-operatives, to organise and equip enterprises serving consumers' co-operatives. In district unions of consumers' co-operatives, and in the regional and republican organisations of consumer co-operation, an enterprise fund is created, the resources of which are used for additional capital investment, social amenities and services and for awarding bonuses to workers. Two per cent of planned and 25 per cent of overplan profits are deducted for this fund.

The following features characterise the relations between consumers' co-operatives and the financial system. Consumers' co-operative enterprises pay turnover tax and income tax. The State Bank grants them short- and long-term credits in considerable amounts. Bank credit provides 85 to 90 per cent of the total resources required for creating commodity stocks.

District unions of consumers' co-operatives, and regional, territorial and republican unions draw up financial plans. The financial plan shows the sources of finance and the use to

which it is put (financing capital investment, paying income tax, making deductions from profits for the funds for special purposes, repaying bank loans and increasing the resources allotted to cost-accounting enterprises). Besides this, the financial plan shows the co-operative union's own resources, and the permanent liabilities in the turnover at the beginning and the end of the plan period. Simultaneously with the financial plan, a statement is drawn up for the financing of capital investment and capital repair. The basic financial indices and an estimate of the share of the consumers' co-operatives' own resources to cover commodity stocks is sent down to the lower units by the district union of consumers' co-operatives.

PART FOUR

STATE REVENUE OF THE U.S.S.R.

Chapter 9

STATE REVENUE SYSTEM IN THE U.S.S.R.

General Concept of the State Revenue of the U.S.S.R.

By *the state revenue of a socialist society* is understood the formation of centralised and decentralised monetary funds, created out of national income through its planned distribution and redistribution.

The mode of social production, the prevailing relations of production and the functions of the state determine the nature and the principles of creating state revenue.

In a socialist society, state revenue which is based upon socialist property is the property of the whole people. It may be subdivided into decentralised revenue (the income of state enterprises and organisations) and centralised revenue (revenue of the State Budget).

To fulfil its proper functions, the socialist state must have appropriate monetary resources at its disposal. These resources can be drawn out of national income which is created in the sphere of material production.

In the U.S.S.R., state revenue is formed from the incomes of state enterprises, collective farms and consumers' co-operatives and to a limited extent, from the incomes of individuals. The methods of mobilising these resources and their importance in the overall volume of state revenue vary.

According to its source, state revenue can be subdivided into tax and non-tax receipts. Non-tax revenue is characteristic of a socialist state; it arises from the direct transfer of

a part of the net income of state enterprises and organisations into the centralised fund. In this case, the transfer of a part of receipts takes place within the framework of unified state property. Neither the nature nor the ownership of receipts are changed: they remain state revenue.

Revenue which originates in the net income of collective-farm and co-operative enterprises and the private incomes of individual persons is a different matter. Here, the main method used to create state revenue is taxation: as a result of taxation, ownership is changed and the revenue itself, to the extent to which it goes into a centralised state fund, is transformed from collective (collective-farm) and personal property into the property of the whole people.

In the U.S.S.R. state property predominates and accumulation in state enterprises and organisations is therefore the main source for the creation of state revenue.

State industrial enterprises receive income from the production and sale of output. After the deduction from aggregate money income of the value of the material costs of production, of wages and of the other expenses which constitute the elements of production cost, there remains *the net income of the enterprise* which appears in two forms: turnover tax and profits.

A considerable part of the income of state enterprises goes into the State Budget of the U.S.S.R. The remaining part of income and accumulation is at the disposal of the cost-accounting enterprises and organisations themselves; they use it for production needs (capital investment, capital repair, replenishing working capital, etc.) and for creating incentive funds. The principles of democratic centralism and cost-accounting methods of managing state enterprises give rise to this method of distributing the incomes of state enterprises and organisations.

Irrespective of whether the revenue and accumulation of state enterprises and organisations goes into a centralised state fund (the State Budget) or remains at the disposal of the enterprises themselves, their economic nature is not altered: in both cases, they are the revenue of the state, since the enterprises and organisations themselves are the property of the Soviet state.

The income and accumulation of collective-farm and co-operative enterprises are a different matter. The income re-

ceived by them is the property of the particular production collective, and the socialist state cannot dispose of it as it would of its own property. Under socialism there is an objective necessity for collective-farm and co-operative enterprises to use their income to help to form a centralised state fund from which to meet those expenditures which the socialist state makes in the process of fulfilling its internal and external functions. With this in view, the Soviet state withdraws a certain part of the income of collective-farm and co-operative enterprises for inclusion in the State Budget.

Resources obtained by mobilising some part of personal savings, as has already been said, also go to make up the state revenue of the U.S.S.R.

Thus, the planned utilisaton of the income of socialist enterprises and organisations and of a part of the personal incomes of individuals is provided for the distribution and redistribution of the national income of the U.S.S.R. to create a centralised state fund of budgetary resources.

Lenin, in defining the special features of raising revenue in a socialist state, pointed out that after the chief means of production have been nationalised and the bourgeoisie has been expropriated, the receipts of state enterprises and organisations must become the basic resources of the state. Lenin's statement is fully confirmed by the way financial relations are in fact organised in the U.S.S.R. and other socialist countries.

The overwhelming part of state budgetary revenue in the U.S.S.R. (more than 90 per cent) is formed by receipts from the socialist economy. Compulsory and voluntary payments by the population make up a comparatively small part of budgetary revenue. In the very near future, state revenue in the U.S.S.R. will be formed entirely from the income and accumulation of state enterprises and organisations.

In a socialist economic system it is not necessary either directly or indirectly to use the issue of currency as an item of state budgetary revenue. With the correct planning of budgetary resources in accordance with the non-deficit principle, currency issue cannot serve as a source of revenue for the budget of a socialist state. New money can come into circulation only as short-term bank credit for the national economy: the systematic repayment by borrowers of bank advances ensures its regular flow back into the funds of the State Bank.

In planning budgetary revenue, the state relies on the law of the planned, balanced development of the economy and the law of the circulation of money. Additional requirements of financial resources are covered without the issue of currency, by using the excess of revenue over expenditure and the budget reserve which is provided for each year in the form of the reserve fund of the Council of Ministers of the U.S.S.R. and the reserve funds of the republican Councils of Ministers.

Proper proportions need be established between the revenue and expenditure of the State Budget, and considerable sums must be reserved in advance in the budget for unforeseen expenditure arising in the course of fulfilling the plan. This is only possible if the whole system of production and financial planning is correctly organised and financial supervision is efficient.

Economic Classification of the State Revenue of the U.S.S.R.

The economic classification of the state revenue of the U.S.S.R. takes into account: the form of property, the source of income and the method of withdrawing resources into the State Budget.

Depending upon the form of property state revenue is divided into three groups: 1) the incomes of state enterprises and organisations, 2) payments made by collective-farm and co-operative enterprises, 3) payments made by individuals.

Depending on whether resources go to satisfy general state requirements or *the needs of individual enterprises* the state revenue of the U.S.S.R. can be subdivided into centralised revenue (budgetary revenue) and decentralised revenue (the income of state enterprises).

The objective necessity of providing for the process of extended socialist reproduction requires, on the one hand, the transfer of a considerable part of the income of the state sector into a centralised state fund for accumulation and social consumption, and on the other hand, that a certain proportion be left directly at the disposal of the enterprises themselves, also for accumulation and consumption.

It follows that the concept of state revenue is broader than that of the revenue of the State Budget of the U.S.S.R.; not

all net income of state enterprises is drawn off into the budget but only part of it.

According to its *source*, state revenue can be divided into the following three groups.

(1) The income of state enterprises and organisations from the sale of output and from services rendered; and the income from state property and lands.

(2) Revenue received from collective-farm and co-operative enterprises and from public organisations.

(3) Revenue coming from individuals.

Each of these groups is divided into subgroups.

Thus revenue from state enterprises and organisations can be subdivided into: (a) revenue from state enterprises and organisations, (b) revenue from state property and lands, (c) revenue from services rendered by state institutions and organisations.

Revenue from state enterprises and organisations includes transfers from profits, turnover tax, fees for the use of fixed productive assets and working capital, entertainments tax, customs revenue, contributions to the state social insurance fund; receipts from transport and communications; receipts from the income of the State Bank of the U.S.S.R. and the Chief Administration of the state savings banks, and from loans raised by the state, and levies paid by state enterprises.

In this same subgroup are also included net payments for insurance of property and of individuals (expenditure of branches of Central Administration for State Insurance on administering insurance and on paying out compensation is deducted).

The subgroup *revenue from state property and lands* includes: income from forestry, income from fishing rights, income from the housing and utilities of local Soviets, and income from state funds.

The revenue from services rendered by state institutions and organisations includes: payments for inspecting weights and measures, levies collected by the state automobile inspection, payments on applications for trade marks, and payments for services rendered to state enterprises, organisations and to individuals by legal bodies, arbitration bodies and notary's offices.

The incomes of collective-farm and co-operative enterprises come into the centralised state fund in the form of income

tax from collective farms, consumer co-operatives and public organisations, land rent, taxes on building and the levy on collective-farm markets.

Revenue from individuals takes the form of compulsory or voluntary payments.

Compulsory payments include income tax from individuals, agricultural tax, local taxes and levies, charges for the use of state property and lands, and the levy on collective-farm markets.

Voluntary contributions are the savings of the population from earned income, invested in state loans, deposited in savings banks or used to buy lottery tickets.

The state revenue of the U.S.S.R. can be subdivided according to the *method used to collect it*, into tax and non-tax receipts.

Non-tax revenues are characteristic, as stated above, of the budget of a socialist state as distinct from the budgets of capitalist states.

The non-tax revenues of the Soviet state are: turnover tax, deductions from profit, and other revenues going into the budget from state enterprises and organisations. The payments of state enterprises and organisations into the budget are fundamentally a redistribution of income within the framework of a single form of state property.

Tax payments include the taxes from collective farms, co-operative organisations and individuals. By means of tax payments a part of the income of collective farms, co-operative organisations and individuals is converted into national, state property.

Taxes in the U.S.S.R. are divided into state and local taxes.

State taxes are considered to be those taxes in which the principles of their structure, the rates of tax and allowances are completely determined by the supreme organs of state power. These taxes are included in the revenue of Union, republican and local budgets.

Local taxes are distinguished by the fact that they go entirely into local budgets. They are also determined by the supreme organs of power; however, local organs are given a certain flexibility in collecting them.

Taxpayers are juridical persons (i.e., enterprises and organisations) or individuals (factory and office workers, and collective farmers).

Items subject to taxation are income, property or turnover from the sale of goods on which taxes are levied.

The main *sources of tax* in the U.S.S.R. are the income of collective farms, the wages of factory and office workers, the incomes of collective farmers from subsidiary personal plots and the incomes of other groups of the population.

Under socialism taxes are the means by which collective-farm and co-operative enterprises and individual citizens participate in forming the revenue of the state.

Chapter 10

TURNOVER TAX

Economic Nature of Turnover Tax

The most important part of the financial resources of the Soviet state is created by the realisation of the surplus product. The division of the surplus product (net income) of a socialist society into the income of socialist enterprises and the centralised net income of the state is determined by the interaction of three objective factors: (1) the total volume of surplus product; (2) the requirements of the national economy and the state for financial resources to meet the needs of accumulation and social consumption and (3) the necessity of creating normal conditions to enable socialist enterprises to operate on the basis of cost accounting. The boundaries between the net income of state enterprises and state income are fixed by the national economic plan, in which an important part is played by finance.

The centralised net income of the state is created by means of the turnover tax and deductions from profits. The income of state enterprises and organisations passes through these two channels into the State Budget. More than 41 per cent of the budgetary revenue of the U.S.S.R. comes from the turnover tax.

Turnover tax is a part of the value of the surplus product (net income) which is included in advance in the price of a commodity and passes into the budget of the socialist state via the price mechanism.

Turnover tax is a way of transferring a predetermined part of the money accumulation of socialist enterprises to the budget. It is one form of primary (basic) income which is created in the sphere of material production and comes under the direct administration of the Soviet state.

Turnover tax is fixed in advance as part of the planned price of a commodity. After the sale of products it is transferred directly to the State Budget irrespective of the production results of the individual enterprises. Thus, turnover tax guarantees stable state budgetary revenue and its regular receipt.

Although surplus product is created both in Department I and Department II of social production, the withdrawal of net income in the form of turnover tax into the budget mainly takes place in Department II, i.e., in branches of the economy producing consumer goods.

Turnover tax is paid mainly by food and light industries. In heavy industry, turnover tax is paid by enterprises in the oil, power, metalworking and chemical industries. In other heavy industries, turnover tax is paid only by those enterprises which produce consumer goods (motor vehicles, motor bicycles, watches and photographic equipment, etc.) at the same time as carrying out their main activity.

How is the fact that the bulk of net income is accumulated in the budget from Department II explained?

First and foremost it is connected with the mechanism for fixing planned prices. The state establishes the amount by which prices differ from value. This is dictated by the objective necessity of using this difference for the planned redistribution of the value of surplus product between branches of the economy.

In the U.S.S.R., the prices of means of production are, as a rule, lower than their value. Therefore, a part of the value of surplus product created in the heavy industries is obtained or realised in the output of light and food industries. The value of means of production is obtained not in their planned price but in consumer goods' prices through the turnover tax (insofar as these means of production participate in the production of consumer goods).

Thus, the result of the difference between prices and value is that surplus product is created at one place and realised at another. In practice this means that the value of the sur-

plus product included in the means of production does not pass into the State Budget at the time of their sale, but after the consumer goods have been sold. As a result, the amount of net income in Department II branches of the economy appears to be considerably larger than it really is. Hence the necessity arises of withdrawing a part of this income into the budget by means of the turnover tax.

If a larger amount of net income were left at the disposal of the enterprises in Department II, it would weaken their cost-accounting incentives and at the same time deprive the budget of stable and regular revenue.

Moreover, it is generally recognised to be more expedient to withdraw part of the value of surplus product created in Department I indirectly through the sale of the output of Department II, since it guarantees the rapid and regular receipt of resources by the State Budget. The length of the production period for consumer goods is, as a rule, shorter than that for means of production and to this extent receipts from the sale of consumer goods in the form of turnover tax pass into the State Budget regularly. This enables both the formation of budgetary revenue and the payment of allocations from the budget to be stable and regular.

Thus the source of the turnover tax paid by enterprises of the light and food industries is part of the surplus product created both in the industries producing consumer goods and those producing means of production. The result of fixing the prices of means of production at less than their value decreases the share of Department I in creating the national income of the country. But the "losses" of the state from selling means of production at lower prices, are returned to the budget through the prices of the output of Department II.

Industries which have received a smaller value than has actually been created in them receive additional resources from the budget to extend production. These resources are taken from those industries where more surplus product is realised than is actually created.

Turnover tax is used by a socialist state as an economic instrument for regulating the profitability of enterprises.

By means of differential rates of turnover tax, the state controls the level of profits in enterprises on cost accounting. There is of course a single selling price for products of identical type. However, in different enterprises the costs of

producing the same product vary as a result of different levels of technical equipment, differing quality of raw materials, soil and climatic conditions, etc. If through turnover tax or other devices, the same proportion of the net income of enterprises was removed into the budget, then one enterprise would be excessively profitable while in another where high costs were prevalent profitability would be low. Due to the fact that differential rates of turnover tax have been fixed for enterprises producing one and the same type of output, an approximately uniform level of profitability is achieved. In certain cases enterprises are exempt from turnover tax.

Besides state enterprises, state and co-operative organisations selling agricultural produce purchased from collective farms pay turnover tax. This ensures that accumulation of collective-farm and co-operative enterprises contributes to the state fund of financial resources. In this case, turnover tax is used by the socialist state as a method of redistributing surplus product between the collective-farm and co-operative sector and the state sector. A part of the value of surplus product which has been created in collective-farm production is realised by means of the turnover tax.

Bourgeois economists try to demonstrate that turnover tax in the U.S.S.R. is simply a tax revenue of the state budget, a kind of universal excise (an indirect tax), i.e., a direct addition to the selling price of goods over and above their real value. It is not difficult to show that this type of assertion is unfounded.

Outwardly turnover tax has some of the purely formal features of a tax; an obligatory payment is made over an established period of a stable and fixed amount without being later returned to the payer, collection is regular, and so on. All these features and the fact that turnover tax is levied primarily through the prices of consumer goods, serve as "grounds" for the bourgeois economists to identify it with an indirect tax. But a scientific statement about the characteristics of any economic phenomenon and especially those falling into categories connected with commodity-money relations, must proceed not from outward appearances but from the underlying processes, disclosing their social and economic content. This is particularly true of the turnover tax.

The characteristic feature of an indirect tax is that it is imposed upon the consumer directly by lowering wages or

lengthening the working day and especially by raising prices. Thus the share of the working people in the national income of the country is decreased. All this takes place under the conditions of capitalism, where indirect taxes, including turnover tax, constitute a universal excise and are a factor in price formation.

Antagonistic, hostile classes and private property, which are the social and economic grounds for establishing indirect taxes, do not exist in the conditions of a socialist economy.

During the period of transition from capitalism to socialism indirect taxes existed for some time in the U.S.S.R. in the form of excises. At the same time, the Soviet state tried to protect the incomes of working people from indirect taxation: necessities were exempted from excise while luxury goods were subject to high taxation. Revenue received by the budget from indirect taxation was used for measures to improve the welfare of the workers.

This all indicates that under the conditions of the multisectoral economy of the transitional period from capitalism to socialism, indirect taxes in the U.S.S.R. were distinguishable from indirect taxes under capitalism principally by their social content.

Indirect taxation was made necessary in the first stage of the transitional period by a number of circumstances, in particular:

the existence of private capitalist elements which tried in every way possible to use market relations and the law of value to sell goods at high prices with the purpose of obtaining profits;

the limited financial potential of the Soviet state in this period and the weakness of financial organisation, which did not allow an expansion of direct taxation on the incomes of the bourgeoisie.

Later as the socialist sector developed and consolidated and budgetary revenue from the accumulation of socialist enterprises increased, indirect taxes gradually lost their significance.

By the tax reform of 1930, two channels were established for the budget to receive the monetary accumulation of state enterprises: turnover tax and deductions from profits.

Turnover tax in the U.S.S.R. in contrast with excise duties is neither a factor in price-formation nor a simple mark-up on price. This can be shown by the following example. Let us suppose that the price of a unit of some commodity is fixed by the plan at 20 rubles (where its value is 15 rubles and accumulation–5 rubles including a profit of two rubles and turnover tax of 3 rubles). Here a change in the proportions of the elements constituting the price within the limits of the firmly fixed planned prices, cannot influence the level of consumption. Profits may be 2 or 3 rubles and turnover tax correspondingly 3 or 2 rubles; or there may be no turn-

over tax at all, the total accumulation of 5 rubles being realised in the form of profit. These changes have no effect of substance on the price nor does the effective demand of the population change.

In the U.S.S.R., turnover tax does not affect the money income of the population envisaged in the plan.

The Soviet state fixes, in advance and in a planned way, the prices of raw materials and supplies, and of goods for sale; it determines the level and amount of wages. Then, proceeding from planned prices and wage levels, it fixes both the overall volume of the tax and its specific weight in the prices of individual goods. Thus the magnitude of the turnover tax is determined as a result of economically justified planned prices and can in no way be regarded as a simple mark-up on price. In practice this means that turnover tax does not fix the price level but, on the contrary, the size of the turnover tax depends upon the pre-planned price level. This method for removing part of net income into the budget is possible only under the conditions of a planned, socialist economic system. In the payment of turnover tax by state enterprises a part of income is not taken away and transferred to another owner as under a true tax relationship.

Turnover tax exists in capitalist countries as a real tax since it takes the form of a direct mark-up on the price of goods. The capitalist does not decrease his profits by the amount of the turnover tax but transfers the burden through the price mechanism to the purchasers, i.e., to the working people.

In a socialist society, turnover tax comes into the category of the non-tax revenue of the socialist state. It acts as a method of realising the value of surplus product and as the chief means of creating the centralised net income of society through the State Budget.

Planned Prices and Turnover Tax

In a socialist society, the turnover tax is inherently connected with planned price formation. It is a financial channel for distributing the national income, and it is created through the agency of the mechanism for forming planned prices. Price is an important instrument in the hands of the state

for distributing and redistributing national income according to the plan and for establishing the correct ratio between the accumulation and consumption funds.

Price is based on socially-necessary labour outlays, which determine the value of the commodity. The principal constituents of price are: the cost of material, wages and accumulation which are obtained in the form of profits and turnover tax.

The interrelation between the constituents of price depends on the industry concerned and the nature of the output. The prices which exist in the Soviet Union are as follows:

(1) enterprise's wholesale prices, for producer goods and goods sold to wholesale trading agencies: they comprise the planned production cost and planned profits not including turnover tax;

(2) industrial wholesale prices, for the output of state production and for state procurements: they comprise enterprise wholesale prices plus turnover tax;

(3) delivery prices at which state farms hand over their produce to the state. These prices are differentiated by zones, in order to take account of the variations in the production costs of agricultural produce;

(4) zonal state purchasing prices at which state purchases of agricultural produce from collective farms are made;

(5) retail prices which are charged to the population for consumer goods;

(6) prices on the collective-farm market which are formed by the interaction of supply and demand but are directly influenced by the prices current in state retail trade.

As a rule turnover tax is the difference between the wholesale price of the industry and the wholesale price of the enterprise.

The amount of turnover tax received by the budget depends directly upon two factors: the volume of trade turnover and the price system. When goods are produced and sold at prices which include a part of monetary accumulation in the form of turnover tax, an increase in the quantity of goods results in an increase in the amount of turnover tax which passes into the budget as revenue.

The amount of surplus product created in the collective-farm sector and passing into the state fund depends upon the difference between state purchasing prices and retail

prices. This means that, if retail prices are given, the size of the turnover tax depends directly upon the level of purchasing prices for agricultural produce. The greater the difference between retail and purchasing prices, the larger is the proportion of surplus product created in collective-farm production which is obtained by the state as turnover tax. In the same way the retail price of goods manufactured from agricultural raw materials includes a turnover tax element which passes on into the centralised state fund; in this respect also turnover tax constitutes a way of redistributing surplus product between the collective-farm and state sectors.

In the period of the transition from capitalism to socialism, especially during the industrialisation, the turnover tax was widely used as a method for redistributing surplus product between the collective-farm and co-operative sector, on the one hand, and the state sector, on the other. At that time there was a multiplicity of prices for agricultural produce and the average price was low: the prices of agricultural products, in particular those of grain, meat, vegetables and potatoes, were fixed below production costs. Moreover, in the subsequent periods (1932-35, 1939-40, 1946-47) retail prices increased while procurement prices remained constant (except those for certain industrial crops). The proportion of the surplus product produced in agriculture and obtained through the turnover tax therefore continually increased.

From 1953, procurement and purchasing prices for collective-farm output were gradually raised. Thus after the Plenary Meeting of the Central Committee of the C.P.S.U. in September 1953, there was a sharp increase in the procurement prices of grain, meat, sugar beet, etc. This resulted in a considerable increase in the money incomes of collective farms, and also led to a rise in the production costs of light and food industries. Since retail prices remained at their former level, or were even reduced for some commodities, the result of this measure was that turnover tax was greatly reduced, and it was completely abolished in certain industries. In some cases, the prices at which the procurement agencies sold raw materials to industry proved to be lower than those at which they made their purchases. This gap was financed by subsidies from the State Budget.

"The policy in the sphere of state purchasing prices of agricultural produce and state selling prices of means of

production for the countryside," the Programme of the C.P.S.U. states, "must take account of the interests of extended reproduction in both industry and agriculture and of the need to accumulate funds in the collective farms."

Until recently, the state purchasing prices for animal products were too low to cover the actual costs incurred by collective farms. The sale of meat to the state involved a loss for most collective farms.

From June 1, 1962, state purchasing prices of animal products were considerably raised in order to eliminate the anomalous situation in the development of livestock farming.

Simultaneously with the increase in the purchasing prices of agricultural products, the prices of means of production sold to collective farms have been lowered in the last few years. This correspondingly reduced that part of the value of surplus product which passes into the State Budget by means of the turnover tax. Thus in 1961, there was a considerable reduction in the prices of agricultural machinery, spare parts, fuel and lubricants. In February 1962, the Council of Ministers of the U.S.S.R. decided to lower the prices charged to collective farms for building materials, metals and metal goods.

Redistribution between industry and agriculture by means of the price mechanism is less extensive as a result of the increase in state purchasing prices of agricultural produce and the decrease in the wholesale prices of industrial goods sold to collective farms.

The state includes turnover tax in the price of certain commodities such as spirits and tobacco in order to control supply and demand. In the case of other goods, demand is stimulated as much as possible by charging the minimum rate of turnover tax or by exempting them altogether; these include articles for children, goods which promote hygiene and better sanitation and many other commodities of day-to-day importance. Here the state is using turnover tax as a constituent of price in order to tackle certain social objectives.

The price is fixed either as a unified price or by approving a fixed trading margin. The principles on which they are established take into account a number of factors: the technical standard of the production process in the particular state enterprise; the sources and methods by which raw

materials are procured (these can be centralised or decentralised); the quality of raw materials; the level of transport costs (on the basis of which zonal prices are fixed); the quality and assortment of the output; and the profitability of production.

In the period of full-scale building of communism, prices will play an important role as an instrument for the growth of the socialist economy.

The Programme of the C.P.S.U. emphasises the need for continuous improvements in the price system in conformity with the tasks of communist construction, technical progress, growth of production and consumption and the reduction of production expenditures. Prices must to a growing extent reflect socially-necessary outlays of labour, ensure return of production and circulation expenditures and a certain profit for each normally operating enterprise. Systematic economically justified price reductions based on growth of labour productivity and reduction of production costs are the main trend of the price policy in the period of communist construction.

Prices in the hands of the socialist state are an important instrument for the planned distribution of the national income, for influencing interindustry and interregional connections, and for achieving the planned balance of money income and expenditures of the population. Therefore, the maintenance of a unified price policy is one of the main aspects of centralised and planned management.

Significance of Turnover Tax in Forming State Budgetary Revenue in the U.S.S.R.

Turnover tax, the most important constituent of the surplus product or net income of society, grows systematically as a result of the expansion of output, the increase of labour productivity and the reduction of production costs; at the same time the real income of the population increases.

Turnover tax is the most important item of Soviet budgetary revenue. The table shows turnover tax in absolute terms and as a proportion of budgetary revenue for the years of the Seven-Year Plan:

	1959	1960	1963	(Estimates) 1966
Total tax receipts (in thousand million rubles)	31.1	31.3	33.8	39.5
As a percentage of total state budgetary revenue	42.0	41.7	38.6	37.5
As a percentage of total receipts from the socialist economy .	46.6	46.0	45.0	40.9

The importance of turnover tax in the revenue of the State Budget of the U.S.S.R. is tending to decrease. In 1947, it amounted to 62.1 per cent of the total but by 1963 the percentage had fallen to 38.6 per cent.

The decreasing importance of turnover tax in the revenue of the State Budget of the U.S.S.R. and in payments from the socialist economy is explained, primarily, by the fact that deductions from profits are increasing in importance with the growing profitability of state enterprises. It is also a result of the structural changes in the constituents of price, in particular, the reduction in retail prices of some goods and the increase in purchase prices of agricultural produce. The state retail price index for all goods (excluding alcoholic drinks), taking 1950 average annual prices as 100, was 76 in 1958, 75 in 1959 and 74 in 1960.

The turnover tax is a revenue of the all-Union budget but it is also very important in the revenue of all the stages in the budgetary system. The Law on the State Budget of the U.S.S.R. for 1966 stated that the following percentages should be deducted for the State Budgets of the Union republics from the amount of turnover tax originating in their territories: R.S.F.S.R.–31.0 per cent, the Ukrainian S.S.R.–39.4 per cent, the Byelorussian S.S.R.–67.6 per cent, the Uzbek S.S.R.–93.2 per cent, the Kazakh S.S.R.–100 per cent, the Georgian S.S.R.–92.5 per cent, the Azerbaijan S.S.R.–99.6 per cent, the Lithuanian S.S.R.–87.5 per cent, the Moldavian S.S.R.–42.6 per cent, the Latvian S.S.R.–20.2 per cent, the Kirghiz S.S.R.–88.3 per cent, the Tajik S.S.R.–100 per cent, the Armenian S.S.R.–100 per cent, the Turkmen S.S.R.–100 per cent, the Estonian S.S.R.–56.9 per cent.

Deductions are then made from the amount of turnover tax

going into the state budgets of Union republics both for the budgets of the Autonomous republics and for budgets of territories and regions, and from these budgets to the city and district budgets.

Principles Determining the Structure and Incidence of Turnover Tax

Turnover tax ensures a steady receipt of revenue by the budget irrespective of the profits of enterprises. A fixed rate of turnover tax included in commodity prices encourages enterprises to endeavour to fulfil the production plan, reduce costs and increase their internal accumulation. This is assisted by the daily control by financial agencies of the receipt of turnover tax and hence of the sale of output.

The financial agencies control the movement of goods through wholesale trade depots, since the receipt of turnover tax depends, for the most part, upon the sale of goods at this stage. If a commodity is not sold or takes a long time to sell, there is an interruption in the flow of receipts to the budget. These interruptions are in the nature of a warning sign indicating a disturbance in the normal passage of goods from producer to consumer. In such a case, the financial agencies take positive steps to make the industrial enterprises and sales depots eliminate the causes of the check in the sale of the commodities.

A very important principle in the levying of turnover tax on goods in the U.S.S.R. as they pass from producer to consumer, is that it takes place *only once* and *at one stage.* Stable fixed prices are possible because this principle is combined with tax rates which are differentiated according to the commodity.

The interrelation between economic organisations and financial agencies depends on a correct decision about the stage at which the tax is levied–who pays the tax. The output of every industry passes through several stages: a factory, its warehouse or issuing depot, a sales depot of the industry, the retail trade network of the industry, the wholesale trade depots of the Ministries of Trade in Union republics, the district union of consumers' co-operatives, the state district trading organisation and its shops and the shops of village

consumers' co-operatives and other local trading organisations.

A factory can despatch goods to an issuing depot or directly to the retail trade network. Issuing depots send goods to sales depots of the industry concerned or to wholesale trading agencies, or direct to the retail trade network. The sales depots of an industry can despatch goods to its own retail trade network, to the wholesale depots of trading organisations, to district consumers' co-operatives, district state trading organisations, or direct to the retail trade network.

Specialised procurement agencies purchase raw materials and agricultural products themselves and through consumers' co-operative organisations.

Unless a stage is fixed in every industry at which the responsibility for paying turnover tax rests, then it is inevitable that some confusion will arise in the settlements of economic organisations with the budget.

Proceeding from these general principles for establishing taxable turnover, in every branch of the economy the stage and the goods subject to tax are determined. This is very important for maintaining a fixed relationship between the elements making up price.

The stage responsible for paying the turnover tax may be: an industrial enterprise subordinated to a ministry, a local industrial enterprise, a wholesale organisation of industry and trade, a state procurement agency, a state retail trading organisation, an industrial enterprise of a consumers' co-operative or of a voluntary organisation. The organisation paying the tax has an independent balance sheet and a current account with a branch of the State Bank of the U.S.S.R. Superior organisations pay turnover tax for those enterprises and organisations which do not have independent current accounts.

Industrial enterprises administered by a ministry pay turnover tax on all the turnover from the sale of goods except the turnover from sales to wholesale organisations which pay turnover tax, and from the sale of goods outside the market if this takes place at prices excluding turnover tax.

The remaining state enterprises including local industry pay turnover tax on all their turnover including the turnover from sales to wholesale organisations but excluding those sales which take place outside the market to consumers who

have the right to obtain them at prices which do not include turnover tax.

As a rule, industrial enterprises pay turnover tax in two cases: (1) when there is no wholesale trade stage for the goods concerned–e.g., consumed durables, the output of local industry, liqueurs and spirits, beer and other goods; (2) when goods are delivered directly from the enterprise to the retail trade network, bypassing the wholesale depots.

The wholesale organisations of industry and those of the Ministries of Trade of the Union republics and also the supplies and sales organisations of Union republics pay turnover tax on all their sales to purchasers if the goods have been obtained at prices which do not include turnover tax.

State procurement agencies pay turnover tax on all goods when they are sold outside their own system.

Industrial enterprises of consumers' co-operatives pay turnover tax on the sale of goods purchased by them (except the sale to the higher organisations in their network or to procurement agencies of unprocessed agricultural products).

Enterprises of public organisations pay turnover tax on articles manufactured by them and sold to trading organisations and other purchasers.

As stated above, in some branches of the economy there is no turnover tax.

All the accumulation in railway transport which is realised through enterprise wholesale prices and transport tariffs takes the form of profits. The role of the budget in distributing this accumulation is confined to removing a part of them as deductions from profits.

An analogous situation exists in water transport, postal and telegraph services and municipal utilities.

The reason for this is primarily that actual physical goods are not created in these fields of production. Therefore there are no intermediate trade links between the enterprise and the consumer and in some cases expenditures upon raw materials do not appear among the components of cost. The accumulation which is obtained in these industries does not contain any significant element which has been transferred from other industries through the low price of means of production.

Collective farms do not pay turnover tax. They transfer produce to the state at fixed prices. A fixed proportion of the

net income of society which they create is obtained by the procurement agencies; these agencies therefore pay turnover tax. Income tax is used to take account of differential rent in redistributing the incomes and accumulation of collective farms.

Public catering enterprises, state farms and subsidiary agricultural enterprises are exempt from turnover tax.

State retail trading organisations pay turnover tax only on goods which they produce or purchase themselves and sell to all buyers or which they sell through their own trade network and to public catering organisations. The trade network mainly realises the value which has already been created in the process of physical production. Accumulation in trading organisations is controlled by the planned retail price and the trading margin or mark-up, and seldom exceeds 1-2 per cent of price. One type of deduction, either on profits or income tax, is sufficient to redistribute the accumulation of trading organisations and to exercise the required financial control over it.

With the administrative reorganisation of industry and construction, the responsibility for payment of turnover tax has shifted. Payment is gradually being transferred from wholesale organisations to industry.

Assessment of Turnover Tax; Payment Dates

In the U.S.S.R. turnover tax is assessed in various ways: (a) as a *percentage of the retail price minus the trading margins;* (b) *as an absolute amount per unit of the commodity;* (c) as *the difference between retail price* (minus the trading margin and, where appropriate, the rebate to the producers' sales agency) and *the enterprise wholesale price* (excluding turnover tax).

A single turnover tax rate is normally established for all enterprises manufacturing a particular commodity and, in the case of zonal prices, selling it within one zone.

The selection of the method for assessing the turnover tax in a given industry is dependent upon the characteristics of production, the type of commodity, the way in which sales are organised and the price structure.

In industries manufacturing a narrow range of goods it is most expedient to assess turnover tax as a percentage of the

retail price. In those industries which produce a wide range of goods and where there are considerable fluctuations in the relationship between retail price and the production costs of individual types of output, turnover tax is calculated as the difference between retail price (less trading and sales agency's margins) and the enterprise wholesale price.

At the present time, turnover tax on the bulk of goods is assessed as the difference between retail price (less trading and sales agency's margins) and the enterprise's wholesale price. The use of the difference method is facilitated by the fact that there are approved lists of wholesale and retail prices for the enterprise and approved trading margins for retail prices; this determines the amount of income that is subject to deduction into the budget.

Turnover tax is levied as a percentage of retail price on goods such as salt, margarine, macaroni products, rubber footwear, crockery, household articles, building materials, electrical goods, and other industrial products. Similarly, articles produced by local industries pay tax as a percentage of retail price less trade margins.

The turnover tax on cereal and oil products is fixed as an absolute amount per unit weight of the commodity, per centner or ton.

In sales of vodka, liqueurs, spirits, sugar, and molasses for fodder, turnover tax is paid on every account settled.

Wholesale depots of the Ministries of Trade of Union republics pay turnover tax daily on the invoices accepted two days earlier.

The remaining enterprises and organisations pay turnover tax every ten days: on the 13th and 23rd for the first two ten-day periods of the month and on the 3rd of the next month for the remaining days of the third period (in December payment is made on the 29th for seven days of the third ten-day period and on the third of the following month for the remaining days of the accounting month).

Local industrial enterprises, enterprises in heavy industry (in respect of consumer goods), village consumer co-operatives, provisions agencies and other bodies liable to tax may pay tax once a month on the previous month's turnover provided the average monthly total of these payments for the past year does not exceed one thousand rubles.

The frequent payment of turnover tax guarantees the regu-

lar receipt of revenue by the budget and prevents there being idle resources in the accounts of enterprises. After the date on which turnover tax payments are due an enterprise may not use these resources to meet its current business requirements. This is most important for strengthening financial discipline and cost-accounting method.

Of all the assessment methods, the difference method corresponds most closely to the economic nature of turnover tax. As has already been established, the turnover tax is a way of obtaining the value of surplus product. In the difference method the taxed item is the surplus product originating in the industry concerned. This excludes the repeated taxation of the same amount of value.

The *entertainments tax* is a variety of turnover tax. It is paid by organisations providing entertainment and also, by state and co-operative enterprises and organisations (including collective farms) and by voluntary organisations which are permitted to provide entertainment for payment, such as film shows, circus performances, sports contests and horse-racing.

Entertainments tax is assessed and paid by the enterprises and organisations who provide the entertainment, and is a percentage of the total gross receipts from the sale of tickets.

Entertainments tax is differentiated according to the type of entertainment and according to whether the location of the enterprise providing entertainment is urban or rural.

Chapter 11

TAXES ON PROFITS AND OTHER REVENUE FROM STATE ENTERPRISES AND ORGANISATIONS

Economic Nature of the Profits of State Enterprises and Economic Organisations in the U.S.S.R.

The profit of state cost-accounting enterprises and organisations is part of the net income of socialist society.

The nature of the profit obtained in a socialist economy is fundamentally different from capitalist profit. In capitalist

countries, profit is the outcome of the exploitation of man by man. It is a converted form of surplus value created by unpaid labour and appropriated by the capitalists. In a socialist economy, the surplus product created in the sphere of material production is used for the needs of society as a whole.

The profit of state enterprises is the difference between the wholesale price of output (excluding turnover tax) and its full production cost. Profit in municipal enterprises, posts and telegraphs and transport, is the difference between the receipts from the services provided by these enterprises and their operating costs. The profit of state trading enterprises is the difference between the trading margins and mark-ups on the one hand and trading expenses on the other. The profit of procurement agencies is the difference between their gross receipts from goods sold and their outlays on purchasing these goods.

The profit of the enterprises of a socialist economy does not differ in its economic nature from turnover tax: both profit and turnover tax originate from surplus product which has been created in the sphere of material production. These two types of revenue differ in the way in which they are distributed and in the way in which they are collected into the State Budget. Turnover tax passes directly and in full into the State Budget whereas profit is at the disposal of state enterprises. Only the residue of profit is withdrawn into the budget as a deduction from profits.

If all the money accumulation of state enterprises appeared as profit in the current account, this would lead to the creation of a considerable surplus in the resources of enterprises in several branches of the economy. There would be excessively large profits and therefore too high a level of profitability to be economically justifiable, and this would weaken the incentive to reduce costs, increase labour productivity, maintain a regime of economy and improve the financial position of the enterprise. This would ultimately have a negative effect on the fulfilment of the production plan and would deprive the State Budget of considerable resources.

The state fixes prices so that the average profit of an industry does not exceed its full costs by more than 10 per cent. The profitability of some of the enterprises of an industry may be higher or lower than the average for the industry, as a result of the economic conditions under which they operate.

The profits of enterprises or organisations are used to meet their internal economic requirements: to finance increases in their own working capital, capital construction, etc. The enterprise fund is formed out of profits. They are also one of the main sources of revenue for the State Budget of the U.S.S.R.

Part of the resources required by enterprises and organisations is covered by their own funds (accumulation), and this part of their expenditure therefore depends directly on their fulfilment of the production and financial plans. In consequence, every economic organisation is directly interested in the results of its economic activities and in increasing its profitability and monetary accumulation, and at the same time this increase is responsible for the more efficient use of the monetary resources at its disposal.

In the period of the full-scale construction of communism one of the major economic goals is to increase the role of profit in the economy, to strengthen cost accounting and to increase profitability in all branches of production by reducing production costs and by stringent economies. The continuous growth in industrial and agricultural output and the reduction in production costs have raised the profits of state enterprises and organisations from 2,200 million rubles in 1946 to 29,300 million rubles in 1961. In 1962 they amounted to 32,900 million rubles and in 1966 they will reach 43,100 million rubles.

The main prerequisite for increased accumulation is that labour productivity should be raised in every possible way. This is the crucial problem in constructing communism; it is of prime importance in attaining extended reproduction and in raising the standard of living of the Soviet people. More than ninety per cent of the increase in national income from 1961 to 1980 must be achieved by means of increases in the productivity of labour.

As a result of the growth in the total volume of profits, the proportion left at the disposal of enterprises and organisations for carrying out planned projects is increasing annually. Thus, according to the State Budget of 1966, total profits will amount to 43,100 million rubles of which 7,900 million rubles, or 18.3 per cent of the total will be left at the disposal of enterprises to increase their fixed assets and working capital and also to form the enterprise fund: this is 1,000 mil-

lion rubles more than in 1965. The interest of enterprises and organisations in the results of their industrial and financial activities is stimulated by leaving such large sums of money in the economy and by establishing a direct connection between the growth of accumulation in an enterprise and the rate of expansion of its fixed assets and working capital.

System of Deductions from Profits

After the turnover tax, the deduction from profits of state enterprises is the largest source of revenue for the State Budget of the U.S.S.R. *The deduction from profits* is that part of the net income of state enterprises which is transferred to the centralised state fund in the form of a planned percentage of actual profits.

The increasing importance of deductions from profits as a source of revenue for the State Budget in the post-war period is demonstrated by the following data: in 1946 the deductions from profits were 1,700 million rubles or 5.1 per cent of the revenue of the State Budget; in 1955–10,300 million rubles or 18.2 per cent; in 1960–18,600 million rubles or 24.2 per cent; and in 1966–35,200 million rubles or 33.4 per cent of total budgetary revenue.

The absolute and relative growth of the deductions from profits in the budgetary revenue is the result of increased profitability, the continuous growth of output on the basis of a high standard of technology and also of a vigorous expansion of socialist emulation between economic organisations to reduce production costs and to accumulate more than has been planned.

State enterprises and organisations operating on cost accounting pay deductions from profit to the budget. For economic organisations to be directly liable for this transfer, they must have an independent balance sheet and the right to distribute profits in accordance with established procedures.

The amount of the deductions from profits is determined centrally, in the aggregate financial plan of ministries, departments and administrations. Payments to the budget are either centralised or decentralised, being made by administrations or individual statutory enterprises respectively.

The amount of the deductions from profits has to be fixed centrally because the individual enterprise may spend on capital investment, the expansion of its own working capital and other purposes more or less than its own profits. With the centralised planning of deductions from profits on the basis of aggregate financial plans, it is possible to cover the neccessary outlays of each enterprise in full and withdraw surplus resources into the budget.

Until mid-1955, the system was in the main a centralised one. Settlements with the budget were usually centralised, i.e., paid by enterprises under the chief administrations of the Ministries of the U.S.S.R. and the Ministries of Union republics on the net amount of the profits and losses of all their enterprises and organisations; the system also applied to those groups of enterprises and trusts which come directly under a ministry. But this centralised method is now used only in the case of a few enterprises.

On July 1, 1955, a decentralised system of deductions from profits was introduced in most branches of the economy.

An essentially decentralised system of deductions from profits has become the chief method by which the economy makes settlements with the budget. Under the decentralised system of taxing profits, economic enterprises and organisations pay the amounts fixed in their financial plans directly into the budget, with a subsequent reassessment to correspond to actual profits.

The advantage of this system of settlement as compared with a centralised system is that it strengthens the link between the financial agencies and the economy. Under a decentralised system the financial agencies can check the original documents of any enterprise to see whether accumulation and the deductions from profits have been completely recorded, and they can also analyse financial and business operations.

A thorough analysis of business operations can disclose how far productive capacity is utilised, whether the relations between labour productivity and wages are correct, what possibilities exist for reducing production costs, and so on. This has a positive effect on the fulfilment of the production plan and the sale of goods, and on the extent to which enterprises fulfil their financial obligations to the state.

As the deductions from profits are paid directly to the local financial organs by enterprises and economic organisations it has become unnecessary to redistribute the working capital of enterprises through the budget.

In contrast with the turnover tax, which is a fixed proportion of the price of a commodity, the size of the deductions from profits depends, as was shown above, on the total profit of the association or enterprise and the resources it requires for increasing the planned quota of its own working capital, and for capital investment and other needs. After the outlays planned to be financed out of profits have been met, the remainder passes as deductions from profits into the appropriate budget, depending on the administrative subordination of the enterprise or organisation.

If the profits of an enterprise are planned to exceed the outlays to be financed from profits, the total planned profit remaining after the planned outlays are made is transferred to the budget; outlays to be financed from profits are planned to leave a minimum of 10 per cent for deduction to the budget. Enterprises and organisations whose requirements are equal to or more than planned profit pay 10 per cent of the planned annual profit into the budget.

The amount of total profit and the deductions from profits are included in the planned balance sheet of income and expenditure of enterprises and organisations.

Deductions from profits are normally assessed in advance on the basis of planned profit and a reassessment is carried out subsequently when the actual profits are known. Deductions from profits are paid into the budget out of current accumulation and in the following amounts: 30 per cent of the planned amount for the quarter is paid in the first month of each quarter and 35 per cent in the second and third months.

The monthly payments are paid in two equal instalments. This method of payment makes the budget receive revenue more rapidly and evenly, and at the same time budgetary resources cannot be used for purposes which are not included in the plan. On the other hand, the regular flow of payments into the budget forces enterprises to attend to the smoothness of the production flow and to the sale of output without undue delay.

In a number of cases, the actual profits of enterprises may

differ from the planned amount from which the monthly payment is determined. In order to avoid the under- or over-payment of the deductions from profits, at the end of the accounting period (the month, quarter or year), a reassessment is made on the actual balance of profits obtained. This reassessment is made for every independent body paying tax on the basis of its own accounts and balance sheets for the appropriate period.

Since January 1, 1959, reassessments have been carried out on the basis of the actual profits obtained since the beginning of the year concerned. For the reassessment the average planned percentage of deductions from profits is taken as the relation between the cumulative amount of planned payments into the budget and the cumulative amount of planned profits for the appropriate period. The reassessment of deductions from profits on this cumulative basis enables the full inclusion of any accumulation which may not have been included in the previous accounting periods.

The size of the deduction from overplan profits depends on the administrative subordination of the enterprises or organisations. Overplan profits are transferred after deductions have been made from them for the enterprise fund, for All-Union Socialist Emulation prizes, for housing construction, and for repayment of State Bank loans for mastering new machines and methods and improving the level of technology of the production process and other expenses. In the case of all-Union enterprises 50 per cent of the overplan profits which remain is transferred to the budget at the monthly, quarterly and annual reassessments. The remaining 50 per cent is used by the government department for temporary financial assistance to the enterprises and organisations subordinated to it.

In the case of enterprises and economic organisations under republican (Union republics) administration 50 per cent of the overplan profits which remain are also deducted for the budget at the reassessments during the year; 25 per cent is put at the disposal of the ministries and government departments as reserves for financial assistance to enterprises in need of it. The remaining 25 per cent is left at the disposal of the enterprises and organisations until the end of the year when it is transferred to the budget at the annual reassessment.

Non-industrial enterprises under Autonomous republican, territorial, regional, city and district subordination pay 75 per cent of their overplan profits to the budget, and the remaining 25 per cent is left with the enterprise until the end of the year when it goes into the budget at the annual reassessment.

For local industrial enterprises a uniform system for handling the overplan profits has been in existence since 1961. From the overplan profits remaining after deductions have been made for the enterprise fund and for awarding prizes in socialist emulation, 65, 70 or 75 per cent is deducted for the budget. The remainder goes towards the expansion of the industry and constructing houses and social and cultural buildings. Since 1962 when decentralised investment (investment outside the plan) was halved, the size of the deductions into the budget from overplan profits has increased in the various republics accordingly to 82.5, 85.0 and 87.5 per cent.

The fact that enterprises are entitled to retain a definite proportion of their overplan profits to satisfy their own requirements, increases the interest of their employees in attaining better production indices, reducing overheads and increasing accumulation.

A special system has been established for the overplan profits of enterprises and organisations in the trade network. They have the right to use 50 per cent of their overplan profits (after deductions have been made for the enterprise fund) for setting up public catering establishments and for other requirements of trade. From the remaining part of overplan profits (after deductions have been made for housing construction, etc.) 50 per cent is deducted into the budget from enterprises and organisations under the Ministries of Trade of Union republics and 75 per cent from trading enterprises and organisations administered by Autonomous republics, territories, regions, cities and districts.

In industrial enterprises under the Autonomous republican or local Soviets, overplan profits are used in accordance with special decisions of the Government of the U.S.S.R.

Ministries and government departments may permit industrial enterprises and economic organisations to use up to 30 per cent of overplan profits, over and above the deductions for the enterprise fund, for housing.

Any deficiencies in payment disclosed by the reassessment must be paid into the budget. Excess payments are credited when the next payment is made.

In cases where the centralised method is used for taking profits into the budget, reassessments are made on actual profits as shown in the summary accounts and in the balance sheets of chief administrations and other organisations. The unplanned losses of one enterprise are not permitted to be met from the profits of another (exceptions are made only in the case of trusts).

At the reassessments, the losses incurred by statutory enterprises and organisations for which profits are planned and those whose financial plans envisage neither profits nor losses and also the overplan losses incurred by enterprises for which losses are planned, are added to the profits arrived at from the summary balance sheet of the chief administrations. The planned profits, on which payments to the budget are assessed, are increased by the amount of the losses.

For some enterprises and economic organisations a special system has been established for settlements with the budget. Thus, because of the special character of their operations, the export-import agencies of the Ministry of Foreign Trade of the U.S.S.R., organisations for building under contract, assembling and building repairs organisations pay their deductions from profits into the budget immediately, based on their actual profits as shown in their balance sheets and accounts.

The Ministry of Railway Transport and the Union-Republican Ministries of Posts and Telegraphs pay deductions from profits on their main activities by the centralised method. The amount to be deducted for payment into the budget is determined as the difference between actual income and planned operating costs.

Deductions from profits are paid once a month by the State Bank, Construction Bank, the Chief Administration of the State Savings Banks and State Credit and the state insurance organs in the republics. The proportions in which profit is allocated are fixed by statutes and regulations: 50 per cent of profits are deducted into a reserve fund and 50 per cent into the State Budget. After the reserve fund has reached the size determined by the Government, the profits of these organisations are transferred in full to the budget.

Fifty per cent of the balance of profits from the subsidiary agricultural activities of state enterprises, organisations and institutions is deducted into the budget. The other 50 per cent remains at their disposal and is used for expanding output in excess of the plan for financing invesment and for increasing working capital.

When enterprises manufacture consumer goods from the waste raw materials resulting from their own production process, profits made from the sale of these goods may remain at the disposal of the enterprises concerned and are not paid into the budget. But several conditions must be fulfilled. Orders and contracts for these sales must have been secured from trading and wholesale organisations (or in the case of semi-finished goods from other enterprises needing them to manufacture consumer goods). The enterprise must have fulfilled its tasks in relation to the volume, assortment, grades and quality of output. The proportion of standard, subquality and reject supplies and raw materials which have been used must not exceed 25 per cent of the value of all the raw materials and supplies required for manufacturing consumer goods from waste or of blanks and semi-finished goods to be subsequently made into consumer goods. Up to five per cent of profit is transferred to the centralised fund of the government department and the remaining amount is used within the enterprise for special purposes.

If an enterprise does not observe these conditions, the profits from the sale of consumer goods pass, in full, into the revenue of the appropriate budget. If the enterprise later fulfils the conditions necessary for the production of consumer goods from waste (calculation is made for the whole period from the beginning of the year), the profits which were taken away earlier are returned to the enterprise from the State Budget.

FINANCIAL CONTROL EXERCISED BY MEANS OF DEDUCTIONS FROM PROFITS. Financial organs check that economic organisations pay the deductions from profits into the budget in the correct amounts and on time.

By studying economic and financial operations, financial organs check that production and sales plans are fulfilled in respect of quantities and assortment, that production costs and distribution costs are reduced and also that the plans for

accumulation and for payments into the budget are implemented.

When decentralised payments are made into the budget, a number of matters are checked by the financial organs. The amount of deductions from profits to be made by the enterprises must conform to the amount fixed for the combine (trust) as a whole. The approved dates must be observed for informing enterprises and organisations about the amount they must pay. Enterprises and economic organisations must make up their general accounts and balance sheets and their budget accounts on time. Payments must be made into the budget in full and on time.

In addition to control of the quarterly accounts, financial organs audit the accounts and balance sheets of enterprises directly. This audit plays an important part in eliminating mistakes in the deductions from profits. Moreover, it helps to improve the quality of reporting and accounting and also to strengthen cost accounting.

As a result of this audit and analysis of the financial and economic operations of enterprises, district and city finance departments draw up reports assessing the main aspects of the work of enterprises: (a) fulfilment of production plans in respect of items listed in the plan and the assortment of products, utilisation of productive capacity, introduction of new techniques and improvements in technology; (b) fulfilment of production cost reduction plans, amount and utilisation of the enterprise's own and borrowed working capital, presence of excessive commodity and material stocks; (c) the debits and credits position, and the fulfilment of the sales plan, profits plan and deductions from profits plan.

The new economic reform changes the financial relations between enterprises and the state.

The share of the profit left to the enterprise depends on the value of its productive assets.

In addition to the turnover tax and deductions from profits, a new, third channel is used to direct a portion of the profits of state enterprises to the budget. This is the previously mentioned charge for the use of productive assets.

This charge is not intended as an addition to the payments enterprises have made heretofore (turnover tax and deductions from profits) but serves to make enterprises use their productive assets rationally.

Revenue from State Property, Forests and Other Sources

The revenues resulting from the use of a variety of state property, lands and appurtenances, forests, fisheries, etc., go into the budget in the form of payments for use. They are important both because they are a source of income for the budget and because they at the same time encourage better use of natural resources.

Receipts from the sale of confiscated, escheated and ownerless property are also included in revenue from state property.

Other non-tax revenue includes: charges for state inspecting and branding weights and measures and measuring instruments, charges for registration of trade marks and for the state automobile inspection, receipts from the sale of undelivered postal consignments, receipts from the sale of unclaimed railway and water transport freight, receipts from the sale of the output and equipment of illegal fisheries, receipts from overdue debts and unclaimed credits and payments, deposits, etc. These revenues are relatively unimportant in the composition of budgetary revenue. However, the imposition of these charges allows the financial organs to check that state enterprises and organisations fulfil their production and financial plans. These charges also ensure that those who have to pay them observe a stringent financial discipline.

Further details are given below about the method by which some of the charges are levied.

THE REVENUE FROM FORESTRY. The Soviet Union has at its disposal an immense wealth of forest land. The forest zones of the country constitute about one-third of the total world forest land. They are divided into state forests and collective-farm forests. State forests are mainly under the management of timber farms and forestries and sections which come under the forestry administration, and under the timber procurement departments of the Ministry of Agriculture. General guidance and supervision to ensure correct forestry management in collective-farm forests is carried out by the Ministry of Agriculture of the U.S.S.R. through its local forestry organs. Collective farms have the right to procure free timber from the forests granted to them in perpetuity, to satisfy their requirements.

The felling fee is the main type of revenue from forestry: it is a charge per tree levied on the timber felling agency for felled timber and subsidiary materials. As a component of the cost of timber products, the felling fee helps to introduce and strengthen cost accounting in timber felling organisations: the organisation which pays the fee has an interest in using the timber in the most efficient way. These payments also provide a means of controlling the condition of forest lands and the rational use of the timber resources of the country.

The fees for the main types of timber are calculated, by the state timber farms, at rates per cubic metre of timber approved by the Council of Ministers of the U.S.S.R. The rates are differentiated according to the economic region in which the forests are located, type of trees, and the distance the felled timber has to be hauled to a timber-floating river or surfaced road. The rates are differentiated in order to control the felling of particular types of tree and in various areas.

Besides felling fees, payments are also made to the budget for the secondary use of forests; these are for the use of land in state forests for storing timber, grazing, etc.

Felling fees are charged on all the timber felled by state, co-operative and public organisations. The only exceptions are timber procurements by the timber farms of the Ministry of Agriculture of the U.S.S.R. for forest clearance, and timber allocations to agricultural settlers migrating by order of the Government of the U.S.S.R.

Receipts from forest revenue are paid into republican and local budgets.

Revenue received by collective farms from the forest lands transferred to them is used in a different way. These revenues are spent primarily upon forestry organisation measures, afforestation and the fight against forest fires, etc. Any excess resources (i.e., the excess of revenue received from collective-farm forests over expenditure upon forestry management), are paid into the non-distributable fund of the collective farm.

In order to carry out their tasks financial organs have the right to check the work of forestry organs, to take part in the commission which distributes forests for felling and to check that arrangements about timber cutting areas are made correctly and on time, etc.

REVENUES FROM THE SALE OF CONFISCATED, ESCHEATED AND OWNERLESS PROPERTY. Confiscated property refers to property which is taken from private persons, institutions or enterprises by the enactments or decisions of court, customs or other authorities empowered to do so.

Escheated property refers to any property remaining after the death of the owner if the legal heirs do not appear within six months from the day on which the legacy is made known or if they refuse their share of the inheritance.

Ownerless property refers to property without a known owner, or property when the owner has left the locality concerned and has no known address. Ownerless property includes finds which are not claimed within a fixed period and valuables and money which have been lost or forgotten in public places and are not claimed by their owners within a fixed period.

Duties in connection with declaring, recording and selling ownerless and escheated property and recording and selling confiscated property are the responsibility of the district and city financial departments.

The financial organs hand over part of this property without charge to appropriate institutions and organisations such as scientific establishments and museums. The remainder is sold by state and co-operative trading organisations at current fixed prices (with an allowance for depreciation). The receipts from the sale of confiscated, escheated and ownerless property pass in full into the revenue of the local budget.

Financial organs are responsible for checking that this property is declared and recorded, that it is sold at the correct prices and without undue delay by the trade organisations, and that the money obtained is transferred to the appropriate budget.

CHARGES FOR INSPECTING AND BRANDING WEIGHTS AND MEASURES AND MEASURING INSTRUMENTS. New and repaired weights and measures and measuring instruments and those which are in operation are all subject to compulsory state inspection by the organs of the Committee of Standards, Weights and Measures and Measuring Instruments of the Council of Ministers of the U.S.S.R.

Institutions, enterprises and organisations are charged at fixed rates for this inspection. 1.5 per cent of the planned and 18.75 per cent of the overplan amount of this levy are used

for incentive payments and awards to employees in the local offices of the Committee of Standards, Weights and Measures and Measuring Instruments; 20 per cent is expended on acquiring and maintaining equipment; and the remaining part is transferred into the revenue of the all-Union budget.

Local financial organs consistently check that these charges for inspection, branding and expert appraisal of weights and measures and measuring instruments pass into the budget on time.

REVENUE FROM THE SALE OF UNCLAIMED RAIL AND WATER FREIGHT. Freight which has not been claimed from railway stations or sea and river ports within a fixed time limit is subject to sale after it has been valued by the appropriate commission. The receipts from the sale of this freight go into the special deposit accounts of the transport organisation concerned.

If the owners of the unclaimed freight do not receive its value within six months, it is transferred from the deposit accounts into the account of the all-Union budget.

If a court or a State Arbitration agency rule that money obtained from the sale of an unclaimed freight, which has already been transferred to the budget, is to be paid to the owner, the railway and shipping organisations pay this amount out of their next transfer to the Union budget.

Local financial organs participate in the work of the commissions for valuing freight subject to sale and they also check that the receipts from sales are promptly transferred to the Union budget.

REVENUES FROM THE SALE OF UNDELIVERED POSTAL CONSIGNMENTS. Parcels which have not been delivered to the addressees, postal orders, registered letters and other postal consignments are sent to the postal authorities responsible for storing them and keeping records of them. When a fixed period has elapsed, these postal consignments are opened by a special commission. Bank notes, foreign currency, precious stones and other valuables found in these consignments are transferred to the appropriate bodies. Consumer goods and foodstuffs are sold by the local state or co-operative trading organisation at a price fixed by the commission.

After the deduction of postal charges, receipts are paid into the postal authorities' account at the State Bank.

The owners have the right to receive within six months either the articles in the undelivered consignments, or the proceeds of their sale. The money received is transferred into the revenue of the Union budget.

Financial organs check that undelivered post is valued correctly and that receipts are transferred to the budget without delay.

CHARGES FOR THE REGISTRATION OF TRADE MARKS. Enterprises and economic organisations make the articles which they manufacture distinguishable by permanent and specific industrial trade marks such as a drawing or a special combination of numbers, letters and words, etc.; this is in addition to the manufacturer's mark as such.

A charge of 25 kopeks is made for each registered trade mark which goes into the revenue of the Union budget. In the course of inspection of enterprises and organisations or in auditing their tax returns, financial organs check whether the periods of validity of these certificates have expired.

EXPIRED DEBTS AND UNCLAIMED LOANS. Debts and unclaimed loans for which the period of claim has elapsed are paid into the revenue of the State Budget. Expired debts and loans in accounts between co-operative and public enterprises and organisations are included in their profits. Expired debts and loans appearing in the accounts of budgetary institutions as due from them, are transferred to the appropriate budget.

Financial organs check that settlements with the budget for the balances of expired debts and unclaimed loans are correct.

Chapter 12

TAXES UNDER SOCIALISM

What Taxes Under Socialism Are; Why They Are Necessary

In the U.S.S.R. taxes are the type of financial relations which arise between the state on the one hand and collective-farm and co-operative enterprises and the individual citizen on the other: part of their income is withdrawn to meet requirements of the state as a whole.

With the victory of socialism and the complete elimination of the exploiting classes, taxes have lost their class character. However, the objective necessity of using taxes as a source of part of the budget revenue of the socialist state has not disappeared. Under socialism taxes are continuing to play an important part in the economic policy of the state. They are used to encourage the growth of collective forms of economy and to control personal incomes, and they are an additional source of finance for the State Budget.

The tax method of withdrawing part of the incomes of the individual citizen in the period of transition from capitalism to socialism and in socialist society itself is a temporary measure of the socialist state.

Taxes in a socialist state in their content and significance are fundamentally different from the taxes of capitalist states.

Under socialism, taxes do not reflect a relation in which working people are exploited by the state. Taxation collects financial resources into the budget which are then used in the interests of the working people themselves.

Under socialism taxes are not uncompensated deductions from the incomes of the population. In the *Critique of the Gotha Programme*, Marx wrote that under socialism, "what the producer is deprived of in his capacity as a private individual benefits him directly or indirectly in his capacity as a member of society".*

In the period of transition from capitalism to socialism and in socialist society itself, taxation ceases to be the economic basis on which the state operates, since it has become the owner of the main means of production and thus has the opportunity of creating state revenues by non-tax methods: it can make an initial allocation of the national income out of the accumulations made within the economy.

In contrast with capitalism, in a socialist society the proportion of taxes on individuals to the total volume of resources passing into the State Budget is not large. The absolute amount of these taxes is also falling from year to year. In the budget for 1962, taxes on individuals amounted to 7.1 per cent of all budgetary revenue against 8.6 per cent in 1956.

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* Marx and Engels, *Sellected Works*, Vol. II, p. 22.

In the state budgets of capitalist countries, tax receipts are the overwhelming proportion of revenue (96 per cent in the U.S. budget for 1960-61, 82 per cent in Great Britain, 86 per cent in France, 85 per cent in the Federal Republic of Germany and 91 per cent in Italy).

Indirect taxes occupy a special position in the budgets of capitalist countries. They are mainly levied through the prices of consumer goods and thus their full burden falls upon the working people. Both working people and capitalists consume necessities. However, indirect taxes amount to only a small percentage of the income received by capitalists but have considerable weight for working people. "The richer the man," wrote Lenin, "the *smaller* is the share of his income that he pays in indirect taxes.... Indirect taxes are taxes on the poor."* In 1960-61 the share of indirect taxes in the total volume of taxes amounted to 39 per cent in Great Britain, 58 per cent in France, 47 per cent in the Federal Republic of Germany, and 43 per cent in Italy. In the U.S.A. the total volume of indirect taxation passing into the Federal Budget, in the period from 1945-46 to 1959-60 increased from $6.3 thousand million to $13,000 million.

It is typical that although there has been an unrestricted increase of taxes on the citizen, the amount of taxation on capitalist monopolies has been reduced.

In a socialist society it is impossible for the burden of taxation to be shifted on to the working masses since there is no social group which is striving to throw off its taxation burden at the expense of another group of society.

Under socialism, tax relations are connected with the existence of different types of property and commodity and money relations. The tax method of accumulating resources implies that property is taken from one owner and transferred to another. The socialist state owns the basic means of production and all revenue which is created in state enterprises. Income taxation is not applicable to state socialist enterprises and organisations since the socialist state itself, as the owner of these enterprises, takes a direct part in the initial allocation of their income. In this case there is no economic justification for alienating a part of their income or for the existence of tax relations. Tax relations begin

* Lenin, *Collected Works*, Vol. 6, p. 403.

wherever state property ends. In the U.S.S.R. the incomes of collective farms, co-operative organisations and the individual citizen are subject to taxation.

From year to year personal taxation in the U.S.S.R. is declining in importance. Owing to the successes achieved in economic development, in the U.S.S.R. extended reproduction and improvements in the material and cultural levels of the Soviet people are secured in the main from revenues of the socialist economy.

From October 1, 1960, the Soviet state has begun to put into effect the resolution of the Twenty-First Congress of the C.P.S.U. aimed at the gradual abolition of personal taxation.

Under capitalism it is not possible to abolish personal taxation since it is the fundamental and irreplaceable financial basis of the bourgeois state. "Taxes are the economic embodiment of the state in existence," wrote Marx. "Bureaucrats and priests, soldiers and ballet dancers, school teachers and the police, Grecian museums and Gothic towers, the civil list and the table of ranks—all these fantastic creations lie in embryo in one common seed—*the tax system.*"* No capitalist state can exist without taxes.

Taxation System for Collective Farms

As was pointed out above the tax method is used when part of the income of collective farms and co-operative organisations is taken into the budget. Collective farms and co-operative organisations are subject to an income tax, but the tax has some specific features. The income tax on collective farms is assessed on gross income shown in the annual audited account of the collective farm, viz., money receipts plus output in kind less deductions to replace means of production which have been used up (seed, fuel and fertiliser, etc.). In consumer co-operative enterprises and organisations the tax is assessed on profit as shown in the balance sheet.

The tax is imposed in these two ways because of the differences in the method of distribution and sale of output and in the system of remuneration.

* Marx and Engels, *Werke*, Bd. 6, Berlin 1959, S. 545.

Output in kind which is subject to taxation is valued at state purchasing prices. Output obtained by processing agricultural raw materials, fruits, berries, grapes and other agricultural produce for which no state purchasing price has been fixed is valued at the actual prices at which these products were sold, in the accounting year, to state and co-operative procurement organisations. In cases where the collective farm has not, in that accounting year, sold the product concerned to procurement organisations, the produce is valued at the actual prices being fetched on the collective-farm market.

All output which is procured or produced by co-operative enterprises and sold by them is valued at state retail prices.

This system of distributing and selling agricultural produce makes it impossible for collective farms to be taxed on their profits.

The system of taxing collective farms has been altered more than once in accordance with the aims set by the Party and Government at each stage of the building up of the collective-farm system. These alterations in the tax system were brought about by the social and economic changes which were taking place in the countryside.

At the present time the collective-farm income tax is paid by agricultural and fishery artels on their income from agriculture and from subsidiary enterprises. A unified fishing levy is paid on the income received by agricultural and fishery artels for the delivery of fish to state and co-operative procurement agencies.

The income tax liability of collective farms is assessed on money receipts and income in kind (expressed in money terms) as shown in the annual accounts for the preceding year and is paid on (a) the income from each branch of agricultural production separately: cropping, livestock rearing, poultry farming, beekeeping, silkworm breeding, orchards, vineyards and other plantations; (b) the income from subsidiary enterprises including the sale of non-agricultural goods and payments for services; and (c) the income from collective-farm incidental earnings and other receipts.

Taxable income excludes that part of gross output and gross receipts which is not income in an economic sense, but a productive outlay, i.e., the funds for reimbursing physical expenditure. Thus taxable income excludes collective-farm output which is used for on-farm requirements, and in par-

ticular for the reserve funds of seed, fodder, for the food fund, for fodder earmarked for collective-farm livestock and products allocated as feed for poultry.

Part of the money income of collective farms is also exempt from taxation, such as: money expenditures made for production purposes in the accounting year—purchases of seed, fertiliser, fuel; the current repair of buildings and agricultural machinery; the maintenance of stores and the other needs of production; depreciation of fixed assets, assessed at fixed rates; receipts from the sale of working and productive cattle, included in the indivisible fund for improving and increasing the herd; money expenditures (production outlays) upon the requirements of the subsidiary enterprises of collective farms and the costs of rendering material aid to collective farmers in need of it. No tax is paid on sums received from the state insurance bodies in compensation for loss of property, crops, etc.

Sums classified as production outlays are not included under taxable income because collective farms which are developing their economic activities intensively and are increasing their production outlays have proved, other things being equal, to be worse off than collective farms which are not developing their economic activities sufficiently.

In the period from 1961-65, 80 per cent of collective-farm income from livestock rearing is being exempted from taxation. This concession provides more incentive for collective farms to increase their output of animal products.

The exclusion of the depreciation of fixed assets from taxable revenue is of great significance now that collective farms own tractors, harvesting machines and complex implements.

The exemption from income tax of all collective-farm output used for on-farm requirements, productive monetary outlays and the depreciation of fixed assets makes it possible to increase investment and provides additional incentives to develop collective-farm production and thus to assist in the strengthening of the collective-farm economy.

Collective-farm boards are charged with tax assessment. This increases their responsibility in fulfilling their obligations to the state. Financial agencies are freed from the work of tax assessment, and this gives them the opportunity to improve the quality of their documentary audit of the annual accounts of collective farms.

The payment of income tax by a collective farm is an important financial obligation to the state. The dates on which the tax is due take into consideration the seasonal nature of the sales of agricultural produce. Most of the tax is due on September 15th (30 per cent), and December 1st (45 per cent), i.e., at a time when most agricultural produce has been sold. By March 15th an advance payment must be made amounting to 15 per cent of the tax assessed in the preceding year; this is then deducted from the 25 per cent of the current year's tax which is paid up to June 15th. These payment dates are favourable to the activities of collective farms.

The Councils of Ministers of Union republics can vary the dates by one month either way, depending on economic conditions.

Income tax concessions are granted to collective farms organised for farmers who have been resettled and to collective farms which have taken resettled persons into membership. Complete exemption from income tax, in respect of income obtained by selling the output of their undertakings, is granted to collective farms in the Far North and to collective farms engaged in fur farming. At the decision of the Executive Committees of the district or city Soviets tax payments may be deferred within the limit of the current year in order to render financial help to collective farms which have suffered losses through natural disasters.

The Council of Ministers of the U.S.S.R. may grant exemptions from income tax to individual categories of collective farms and arrange additional concessions to stimulate the development of certain branches of agriculture. The Councils of Ministers of Union republics have correspondingly been given the right to grant exemptions or income tax concessions to individual collective farms, to defer payments, and in some cases, to write off income tax arrears at the expense of the budget of the republic.

Income Tax System for Co-operatives

At the present time, consumer co-operative enterprises and organisations and the economic enterprises of public organisations pay income tax in those cases where they work on a cost accounting basis and keep accounts. These enterprises are taxed on the actual profit shown in their balance sheet.

Consumer co-operative organisations pay an income tax of 35 per cent and the economic bodies of voluntary organisations pay 25 per cent of the profit shown in their balance sheet in respect of every type of productive, trading and other economic activity. Tax is levied at the standard rate, since the level of profitability of these enterprises does not vary very much. The profits of co-operative enterprises are severely limited by the size of the difference between the trading margins and the distribution costs.

Tax is assessed on the basis of the quarterly and annual accounts, balance sheets and statements which are submitted to the financial organs by those liable for taxation. Since profits are shown in accounts and balance sheets as a running total from the beginning of the year, quarterly payments are assessed and paid on the profit actually obtained as shown on the balance sheet for the period which has elapsed since the beginning of the year.

All new co-operative enterprises and shops working on waste and local raw materials are exempt from income tax in the first two years of their operation, as are clubs of co-operative and public organisations.

Personal Taxes

The personal tax system of the U.S.S.R. covers the following taxes and levies: income tax, agricultural tax, the tax on bachelors, single persons and persons with small families, the tax on buildings, ground rent; levies on the owners of means of transport; single levies on collective-farm markets; and certain others, such as local taxes and levies. A very small group of the population pays a tax on horses belonging to individual peasant farms and a money tax on urban citizens who possess livestock.

Tax is usually assessed on the income of the taxed person; occasionally it is paid on property (e.g., the tax on buildings). Factory and office workers, independent handicraft workers or those in co-operatives, collective farmers and other persons with taxable income or property pay taxes or levies appropriate to the source of their income at appropriate rates of tax. In personal taxation, taxes may be progressive, proportional or paid at fixed rates.

Under the *progressive system*, tax rates increase as taxable

income increases. The larger the taxable income, the greater is the percentage from each ruble of income paid in tax. At a fixed level of income, progressive rates are replaced by a proportional rate. Progressive taxation takes into account ability to pay.

Proportional taxation means the application of a uniform rate to all income irrespective of its size. Under this system of taxation the absolute volume of tax revenue depends upon the size of taxable income. Proportional tax rates are applicable when the tax policy does not have the objective of controlling the income and savings of the taxpayer.

Fixed rates of tax make available a sum of tax revenue determined in advance; the sum does not depend on the size of the taxpayers' incomes. This method is used in cases where the size of the incomes of a given group of tax-payers does not vary much, such as, for instance, the agricultural tax which is levied per one hundredth of a hectare of land. Its rate is differentiated according to the region but it in no way depends upon the incomes of collective farmers. This creates an additional incentive for collective farmers to increase the earning power of their private plots, because income earned in excess of the amount assumed by the tax authorities is not taxed.

Let us examine the main personal taxes.

INCOME TAX. Income tax is the main tax payment of the urban population. It is charged on that part of income which comes into the possession of working people in the course of the distribution of national income.

Factory and office workers, writers, artists, lessors of buildings, handicraft workers and other citizens who have independent sources of income in the U.S.S.R. pay personal income tax. Source and size of income are both taken into consideration when the tax liability of different groups of the population is determined. Thus, handicraft workers not in cooperatives are subject to the highest rates of income tax and factory and office workers to the lowest.

Personal income tax rates are differentiated according to the different categories of taxpayer and the various types of income and wages. Income tax is assessed on a progressive sliding scale for monthly earnings not exceeding 100 rubles. Earnings of factory and office workers in excess of 100 rubles a month are taxed at a uniform rate of 13 per cent.

In addition to the remuneration for their main work, the majority of writers and artists receive irregular supplementary income. Therefore, the income tax for this group of taxpayers is assessed on their annual earning at a special scale of rates. In this case there is no minimum income below which tax is not paid and no dependents' allowances. Tax rates are differentiated from 1.5 per cent on incomes of up to 180 rubles to 13 per cent on incomes exceeding 1,200 rubles a year.

Persons who receive some of their income from private practice (doctors, doctors' assistants and others) pay income tax at increased rates as compared with factory and office workers.

The tax is reduced by 30 per cent for factory and office workers who have four or more dependents. The following are exempt from income tax: servicemen who are serving their time in the ranks or as sergeants or non-commissioned officers, persons who have received awards for inventions or improvements providing the award for each invention or improvement does not exceed one thousand rubles, and pensioners, to the amount of their pensions.

In May 1960, at the fifth session of the Supreme Soviet of the U.S.S.R., in accordance with the resolutions of the Twenty-First Congress of the C.P.S.U., a law was adopted in relation to the abolition of taxation on the earnings of factory and office workers. The abolition of personal taxation will be the natural result of the development of the socialist economy and an indication of its indisputable supremacy over the capitalist economic system. In a socialist society taxes are not the economic basis for the existence of the state. The Soviet state creates its budgetary revenue mainly from internal accumulation and this must in the very near future become the only source of revenue for extended socialist reproduction and for improving the standard of living of the working people.

The law envisages that factory and office workers who have relatively small earnings will receive the largest benefit. This is fully in accordance with the decision of the Twenty-First Congress of the C.P.S.U. that it was necessary to reduce the differentials which developed during the war between the highest and lowest rates of earnings. From October 1, 1960, factory and office workers whose earnings

do not exceed 50 rubles a month at their main place of work were exempt from income tax and the tax on bachelors, single persons and persons with small families. From October 1, 1961, tax was no longer imposed on earnings of factory and office workers not exceeding 60 rubles a month. At the same time the tax on earnings of up to 70 rubles a month was reduced by 40 per cent on average.

THE TAX ON BACHELORS, SINGLE PERSONS AND PERSONS WITH SMALL FAMILIES. This tax was introduced in 1941.

In 1944, when special allowances were granted to single mothers, the tax was also extended to persons with small families.

In 1957, in view of the growth in state revenue from socialist enterprises, the Supreme Soviet of the U.S.S.R. found it possible to abolish this tax in respect of factory and office workers and other citizens with children, and of single women (unmarried and widows) without children.

The tax on bachelors, single persons and persons with small families is levied mainly in urban localities. Persons who are members of peasant households which come under the agricultural tax are exempt from this tax.

This tax is paid by citizens who are over 20 years of age if they have independent sources of income, but do not have children (except single women). Students of secondary and higher educational institutions pay tax from the age of 25. The upper age limit for the tax is 50 in the case of men and 45 in the case of women.

Factory and office workers and people who are equivalent to them for income tax purposes pay a bachelors, single persons and persons with small families tax of 0.5 to 6 per cent of their monthly earnings. Artisans pay the tax on their total annual income at the same rate as that assessed for income tax purposes in the current year.

Exemptions and allowances are envisaged in the law relating to this tax for servicemen and their families, invalids, persons belonging to the national minorities of the northern regions of the U.S.S.R. and others.

THE AGRICULTURAL TAX. When the law on the gradual stage-by-stage abolition of the taxes on the earnings of factory and office workers was passed, the Communist Party and the Soviet Government agreed that it would be expedient

to maintain for some time the existing agricultural tax on personal, subsidiary plots. Since the income of collective farmers depends partly on the sales of their produce at prices arrived at on the market, the agricultural tax is used by the state as an additional means of controlling the income of collective farmers from their personal, subsidiary plots and as a means of improving labour discipline in collective farms.

In time, as social production increases and the economy of collective farms expands, their income will rise. There will be an increase in the deduction of resources earmarked for the reproduction of non-distributable funds and other requirements. This will satisfy more fully both the requirements of social production and the personal requirements of collective farmers for produce in kind and for money. Thus the conditions will be created under which the part played by personal, subsidiary plots will diminish; they will obviously lose their significance for the collective farmer and consequently the time will become ripe for the abolition of the agricultural tax on private plots.

The agricultural tax is the principal tax paid by the rural population. It is paid for the use of the plot of land attached to the house.

Agricultural tax is imposed on every household as a unit irrespective of the number of its workers. It is assessed on the land area of the plot which is allotted to the household. This is the variable which determines the structure of the tax.

The agricultural tax is paid by households of collective farmers–members of agricultural artels, individual peasant households, and households of other persons who are not members of collective farms but who have been allotted plots of land in the countryside.

One of the measures taken to promote the further development of agriculture fundamentally modified the method of exacting agricultural tax.

The agricultural tax system which existed until 1953 did not encourage the development of agriculture in household plots. The tax was assessed on the aggregate income of households. The estimated standard earnings from each type of agricultural crop and also from orchards, livestock and beekeeping, etc., were used to determine the income liable

for the agricultural tax. The approved standard earnings did not take sufficient account of the fall in collective-farm market prices resulting from several consecutive reductions in the state retail prices of foodstuffs and industrial goods. As a consequence the size of taxable income was overestimated. Thus one of the most important requirements for a socialist economy was not met: that collective farmers should be materially concerned in the results of their labour.

From August 8, 1953, a fundamental change in the agricultural tax system was brought about. A new law replaced progressive tax rates depending upon aggregate income by fixed amounts per one-hundredth of a hectare of the land for private use by the collective-farm household (the area occupied by buildings, bushes, forests, public road, ravines and gullies was deducted). The livestock of collective farmers (apart from working stock) is not subject to agricultural tax. Thus the way in which the household plot is used, the type of crops grown and the amount of income received have no effect on the size of the tax.

The new agricultural tax system unites the interests of the collective economy with the personal interests of the collective farmers and increases the interest of the collective farmers in the development of the socialised economy of the collective farms.

The Council of Ministers of the U.S.S.R. fixed the average agricultural tax rate per one hundredth of a hectare for each Union republic and the maximum deviation from the rate for the individual regions. The Councils of Ministers of the Union republics, given the average rate for the union republic, differentiate it for the separate Autonomous republics, territories and regions, who in their turn fix tax rates for the separate regions and, in some cases, for individual villages as well.

The incomes which collective farmers receive as payment by the collective farm for their work are completely exempt from agricultural tax. Factory and office workers who are not members of a collective farm but have plots of land in rural areas pay tax at the same rate as collective farmers. The agricultural tax on private non-collectivised peasant households is assessed at the same rates as for the households of collective farmers but the tax is doubled.

A broad system of concessions has been established in

regard to agricultural tax. Thus in order to develop agricultural production concessions are granted to persons who have been resettled. Concessions are also extended to farms with servicemen and invalids as members, to those which have suffered natural disasters, to the private plots of professional people working in rural areas, etc. The agricultural tax concessions which existed earlier were maintained and extended (full tax exemption in old age, etc.) and this shows the concern of the Party and the Government to raise still more the material standards of the Soviet people.

Financial organs are charged with recording agricultural taxpayers, assessing the tax due and granting concessions. District finance departments issue notifications to those liable for payment, take measures to secure payment within the prescribed period and look into complaints about mistakes in the assessment of tax. The tax is paid into the rural Soviets.

LOCAL TAXES AND LEVIES. The system of local taxes and levies includes the tax on buildings, ground rent, the levy on the owners of means of transport, the levy on the owners of livestock and the levy on markets. These payments form part of the tax system of the Soviet state.

In contrast to state taxes, local taxes and levies pass in full to the appropriate local budget. The Supreme Soviets, the Councils of Ministers of the Union and Autonomous republics and the local Soviets and their Executive Committees have the right to reduce or differentiate the rates for local taxes and levies, upper limits for which are approved by Union legislation; they may also grant additional concessions. They are also permitted to forego raising levies on the owners of means of transport and livestock.

The tax on buildings and ground rent were introduced in November 1923. At the present time the former is levied on the buildings of co-operative organisations and of individual persons. *Ground rent* is exacted on the land granted in perpetuity to co-operative organisations and individual persons, whether it is built on or not.

The buildings' tax and ground rent are mainly operative in urban localities. In the countryside they are used only in relation to the enterprises and organisations which are not engaged in agricultural pursuits and in relation to individual persons not liable for the agricultural tax. Two rates have

been fixed for assessing the building tax: 0.5 per cent of the value of housing belonging to co-operative enterprises and organisations and one per cent on other buildings including housing belonging to individual persons.

The buildings' tax on co-operative enterprises and organisations is assessed on the initial value of the construction (amortisation is not deducted) as shown in the relevant accounts. On the buildings of individual persons it is assessed on the valuation for insurance payments in the previous year.

For the purpose of levying ground rent, the territory of the U.S.S.R. is divided into six categories depending upon administrative significance, population density, the development of trade and industry and on other factors. On each square metre of land in the first category 1.8 kopeks is paid, in the second–1.5 kopeks, in the third–1.2 kopeks, in the fourth–0.9 kopek, in the fifth–0.6 kopek and in the sixth–0.4 kopek. The rates calculated for each category are used irrespectively of how the land is utilised.

Levies on the owners of means of transport and livestock affect urban centres, workers' settlements, summer cottage sites and health resorts. The rates of these levies are differentiated according to type of territory.

A fee is paid by collective farms, collective farmers and other citizens for the use of trading stalls for a day at the collective-farm market.

Self-taxation. In rural localities and summer cottage sites, *self-taxation* is imposed by order of the citizens to obtain additional resources for municipal improvements and to ameliorate social and cultural services. The resources obtained through self-taxation go towards constructing and repairing bridges, schools, public baths, hospitals and village reading-rooms and towards acquiring fire prevention equipment, etc. The maximum differentiated amounts which may be raised by self-taxation are laid down by law.

Stamp duties are payments made by individuals and juridical persons on certain services which have been rendered to them by various state institutions. Stamp duty is collected: by legal institutions on civil actions, by notary's offices on the witnessing of contracts, proxies, wills, authenticating the accuracy of copies of and extracts from documents, and authenticating signatures; by Registrar Offices, and village Soviets on civil status acts; and by some other institutions.

PART FIVE

STATE EXPENDITURE OF THE U.S.S.R.

Chapter 13

STATE EXPENDITURE SYSTEM IN THE U.S.S.R.

Nature of State Expenditure

By the state expenditure system is understood the utilisation of centralised and decentralised financial resources by the socialist state.

Like state revenue, state expenditure has a social and economic content determined by the economic structure of society and the nature and functions of the state. With a change in the mode of social production and the functions of the state, the social and economic content of state expenditure also changes.

Under a socialist economic system where the state owns the basic means of production, state expenditure includes outlay through the State Budget and that of all state enterprises and organisations. However, not all the outlays of state enterprises may be regarded as state expenditure as such.

In accordance with the purposes specified, the financial resources of a socialist state are used to ensure that the requirements of extended reproduction and the social and cultural needs of society are met, and to finance the administration and defence of the country. This determines which expenditures of a socialist society are to be included under state expenditure proper. For example, socialist state enterprises make various production outlays in order to operate normally; these include transport costs which are subsequently reimbursed from the proceeds of the sale of output. What happens in this case is the circulation of funds which

had accumulated in the national economy at a previous stage and constitute part of the wealth of the country.

The expenditure of enterprises on paying wages to factory and office workers reflects the initial distribution of that part of national income which constitutes the personal consumption fund. The payment of wages to employees engaged in the sphere of material production is not in essence a state expenditure but a reimbursement in money form of labour expended.

The initial distribution of national income includes the various deductions into the State Budget in the form of social insurance contributions, deductions from profit and charges for the use of productive assets paid by socialist state enterprises.

Thus, state expenditure includes only those expenditures which are made by the state and state enterprises from the accumulation fund to expand production (capital investment and the increase of working capital) and from the social consumption fund for social and cultural measures and to satisfy other social needs of the state (administration and defence).

Economic Classification of State Expenditure

State expenditure in the U.S.S.R. is planned according to a *scientifically based classification of expenditure by branches of the economy, government departments, organisations and types of expenditure.*

The classification of state expenditure is of great importance in both theory and practice.

The mode of social production and the socio-political order which corresponds to it are the economic basis for classifying state expenditure. The process of social reproduction and the functions of a socialist state are directly related to the economic classification of state expenditures. This means that in planning state expenditures, it is also necessary to make provisions for financing state measures in the non-productive sphere in addition to securing financial resources for extended reproduction. Therefore an economic classification of the budgetary expenditure of the U.S.S.R. must be preceded by an analysis of this expenditure from the point of view of the part played by it in forming national income and by

a study of the branch structure of the national economy and of the activities of the socialist state. The proportions in which the monetary resources of the State Budget are to be spent are planned by the state within the limits of the total planned money income and accumulation and in conformity with the requirements of the economic laws of socialism.

The allocation of budgetary expenditure is decided in relation to specific objectives set for each given period in the country's development. Therefore, the *purposes for which resources are utilised, subdivided by economic regions and branches of the economy,* are the main criterion for classifying state expenditure. This classification makes possible an accurate record of the use of resources in relation to the national economic plan.

Bourgeois economists do not use an economic classification of state expenditure but a departmental or administrative and territorial classification. A departmental classification of state expenditure is based on grouping according to ministries and other state institutions. An administrative and territorial classification means that the expenditures of a bourgeois state are subdivided into outlays made by the central government and outlays made by the local bodies.

In capitalist countries, state outlays are often divided into ordinary and special expenditure. Ordinary expenditure includes outlays incurred in the day-to-day operation of the bourgeois state; special expenditure covers outlays incurred in what are regarded as special circumstances; this expenditure is neither reviewed by the legislative bodies nor made public.

Bourgeois economists classify state expenditures according to their formal and legal characteristics in order to conceal their class nature and to hide from the people the true ends for which budgetary resources are expended. Lenin exposed the nature of the criterion used for classifying budgetary expenditure in capitalist countries in the age of imperialism and called it "official financial trickery". Owing to this criterion, the heading "Labour and Welfare" in the budget of the U.S.A., for example, includes expenditure on "corrective and punitive institutions".

State expenditure in the U.S.S.R. is subdivided according to its function in creating national income into two main

Departments: 1) *expenditure in the productive sphere*, i.e., in the sphere of material production; and 2) *expenditure in the non-productive sphere.*

Expenditure in the productive sphere is incurred by the expansion of production and by the use of that part of national income which is allocated to the accumulation fund. Expenditure in the non-productive sphere is primarily associated with the use of the consumption fund.

In the productive sphere, state expenditure ensures the growth of fixed assets in the national economy and the increase of material production, i.e., plays a direct part in creating national income.

In the non-productive sphere, although expenditure is socially necessary to satisfy the needs of society, it does not play a direct part in creating national income. Therefore a socialist state is not indifferent to the proportions in which state budgetary resources are distributed between the productive and non-productive spheres.

State expenditure in the productive sphere is divided into the following branches of the economy: industry; agriculture; construction; transport and communications (when serving production); state purchases of agricultural produce and trade (as a continuation of production in the sphere of distribution); supplies of materials and machines for socialist enterprises and organisations.

This branch classification is supplemented by an intra-branch classification of state expenditure in the productive sphere. Thus expenditure on financing industry is divided according to the role played by a particular industry in social reproduction (the production of means of production, Department I; and the production of consumer goods, Department II). In agriculture, state budgetary resources are used to finance state farms, for long-term credit to collective farms and for other production requirements. The main budgetary outlays for agriculture are: on acquiring agricultural machinery; on constructing and equipping farm buildings; on irrigation and other installations; on building up herds in state farms, etc. This classification of expenditure takes account both of the specific features of agricultural production and also of the existence of two production sectors corresponding to the two forms of socialist property.

Grants for financing transport are classified according to the special features of the different types of transport (railways, water and air transport, etc.).

Department I expenditure also includes outlays which go to form state reserves of materials and money. These reserves are included in the accumulation fund in the planning of the national income. This group of expenditure does not include the insurance funds used to compensate collective farms for losses incurred through natural disasters.

State expenditure in the non-productive sphere includes: expenditure on developing social and cultural measures—financing education, science and the arts, public health, social security and insurance; expenditure on the state apparatus of government; outlays on the defence of the country; expenditure on economic administration.

In the period of full-scale construction of communism, some forms of state expenditure in the non-productive sphere will continuously increase (expenditure on education, public health, science and the arts, and on personnel training, social security and social insurance), since they are included in the social consumption fund and are necessary for increasing the welfare of the people. Other types of expenditure should diminish (expenditure on administration and defence). This is the trend of development of the state expenditure system in the U.S.S.R.

Thus, there are three main characteristics fundamental to the economic classification of state expenditures: the relation of expenditure to the creation of national income; the branch of the national economy and sphere of state activity to which it appertains; and the specific purpose to which state resources are to be put.

The financial relations which find reflection in the State Budget do not include all the financial activities of a socialist state, since a considerable part of national income takes the form of resources of state enterprises and economic organisations and does not pass through the State Budget. Whereas the state expenditure of capitalist countries is almost exclusively limited to budgetary expenditure, the state expenditure of the U.S.S.R. and the People's Democracies includes in addition to budget expenditure, the expenditure of state cost-accounting enterprises on the expansion of production financed from that part of net income (profit) which is left at

the enterprise's disposal and also from that part of the depreciation fund which is earmarked for capital repairs. State expenditure made directly by state enterprises also includes considerable outlays on social, cultural and everyday needs of factory and office workers.

The expenditure of state enterprises may be divided into four main groups according to economic content: productive economic and operating outlays; expenditure on increasing the output of the enterprise concerned; payments into the financial system; and deductions into special funds.

Productive economic and operating outlays include: expenditure on raw materials, supplies, fuel, electricity; depreciation deductions for the wear and tear of fixed assets; expenditure on the wages of personnel engaged in production; social insurance contributions and expenditure on economic management.

Expenditure on increasing the production of the enterprise concerned includes the costs of increasing fixed assets and working capital.

Organisation of State Expenditure

Budgetary expenditure is planned in order (1) to distribute and utilise budgetary resources in accordance with the unified national economic plan to increase socialist production and satisfy the other requirements of the state; (2) to allocate expenditure between the different parts of the state budgetary system and, in accordance with the principle of balanced planning, to co-ordinate expenditure of money with the use of materials and labour–this is a prerequisite if disproportions are to be avoided; (3) to exercise financial control over the fulfilment of the quantitative and qualitative indices of the production plan, to maintain a regime of economy, to sustain strict adherence to state financial plans, and to reveal and use untapped reserves in the economy.

The main principles on which the expenditure of a socialist state are organised are the following. Allocations are not returnable. Planned proportions must be adhered to in the use of budgetary resources. Resources must be allocated to specific purposes, strictly in accordance with the national economic plan. State budgetary resources must be used only

to the extent to which specific quantitative and qualitative indicators of the plan are being fulfilled.

Budget expenditure is non-returnable because the financial resources of the socialist state are very largely used as direct grants for developing the economy, social and cultural measures, defence, etc. In this case, in contrast with the principles of finance through credit, the state does not fix a time limit within which the advance must be repaid. However, from the point of view of the national economy as a whole, in the last resort these resources are returned to the socialist society in the form of an increase in national wealth and economic and cultural progress.

An important principle in planning state expenditure is that *the necessary proportions in the distribution of national income must be maintained* in conformity with the law of the planned, balanced development of the national economy and with the objective of distributing resources in the best way, taking into account the real need of the economy for them.

In accordance with this law, available finance is distributed in proper and necessary proportions between the different branches of the economy and between Department I and Department II of social production; and correct proportions are established in the development of the national republics and the economic administrative regions of the country.

The planning of state expenditures in the productive and non-productive spheres according to their *specific purposes* is a fundamental condition for the correct use of budgetary resources.

State expenditure which secures the growth of the national income (Department I) is allocated to the following purposes: (1) to capital investment (the costs of new construction, reconstruction, capital repairs and the increases of herds, etc.), i.e., to the fixed assets of state enterprises and organisations on cost accounting; (2) to increase working capital; (3) to other expenditure of state enterprises and organisations including planned outlays not covered by the receipts from the sale of output; the costs of running in newly built enterprises; and the costs of operating state economic measures which are not included in production costs (such as geological and land use surveys).

In the non-productive sphere state expenditure is also sub-

divided according to the purpose of the expenditure: capital investment,* wages, costs of state economic measures, administrative expenses.

The planning of state expenditure according to the purpose and the branch of the economy to which it is allocated secures the most correct distribution of resources in accordance with need.

Finance is granted from the budget *to the extent of plan fulfilment.* Despite the fact that allocations from the state budget to socialist enterprises and branches of the economy are planned in advance, this does not mean that these resources can be obtained on demand. The resources are not simply handed out in accordance with production plans; they are paid out in proportion as the plan is fulfilled. When the budgetary grant is paid out each quarter, the work of the enterprise or the branch of the economy in the preceding quarter is considered: the way in which previous grants have been used is investigated, and the extent to which quantitative and qualitative plan indicators have been achieved. This is particularly done in the case of investment allocations. This enables real control to be exercised over the use of budgetary resources by cost-accounting enterprises and organisations.

The method in which finance is provided is of utmost importance in a rationally organised state expenditure system.

There are two methods for providing finance from the State Budget of the U.S.S.R.: (a) the financing of cost-accounting enterprises and organisations and (b) estimate financing.

The finance for cost-accounting organisations is provided from their own internal accumulation which is used to expand production, from credit resources and partly from budgetary grants. Until recently, non-returnable budgetary grants provided the source for capital investments. According to the new system capital investments are financed by long-term credits. This is applied notably to the capital investments of functioning enterprises.

The order in which the working capital of enterprises is supplemented has changed too. Enterprises are issued credits

* Capital investment in building schools, hospitals, communal enterprises and increasing other non-productive assets, is included in the Department I expenditure of the sphere of material production.

to supplement their working capital, i.e., these sums are repayable.

None of the institutions and organisations in the non-productive sphere takes a direct part in creating national income and so they are financed by the *estimate method.* Expenditures are covered by non-returnable budgetary grants allocated according to a plan which takes into account the staff establishment and the organisational structure of the institutions to be financed. Here also the classification is by department, branch and purpose of allocation, and this enables control to be exercised over the use of state resources in the course of financing.

With all these different forms and methods of state financing, the expenditure of a socialist state is allocated so as to secure the fullest possible satisfaction of the growing needs of society as a whole on the foundation of a continuous growth and improvement in socialist production based on the most advanced technology. The overwhelming majority of the state's budgetary resources are allocated to financing the national economy and social and cultural measures. This is the main function of the financial resources of a socialist state.

Under socialism the function of state expenditure is mainly productive. It is used to secure the financial resources for extended socialist reproduction and for improving the welfare of the people.

Under capitalism, especially in countries such as the U.S.A., Great Britain and the Federal Republic of Germany, the key part of state expenditure is used non-productively; towards maintaining the state coercive apparatus and to militarise the economy. That part of state resources which goes into the material production sphere is mainly connected with arms production. Outlays on education, public health and other social and cultural requirements occupy an insignificant place in the budgets of capitalist countries and are made only under pressure.

The expenditure of a socialist state includes both expenditure from the centralised state fund and expenditure of state enterprises and organisations. The expenditure of a bourgeois state is in practice co-terminous with the expenditure of its state budget, since a bourgeois state does not own the chief means of production and does not carry out

the functions of an economic organiser through a planning system.

Under socialism, state expenditure is planned because the national economy is planned and the socialist state has a new part to play in the economic development of the country which is expressed in its functions as an economic organiser.

The part played by the expenditure of the State Budget of the U.S.S.R. in the economic development of the country is to provide finance through the State Budget for the national economy and thus to secure extended socialist reproduction. However, this does not exhaust the significance of the State Budget of the U.S.S.R. The economic relations between branches of the economy and the budget, the forms and methods of accumulating resources in the budget, the spending of these resources and the whole system of budgetary planning is organised by the socialist state in such a way as to help to improve the economic activities of socialist enterprises and organisations, to maintain a regime of economy and to promote the growth of internal accumulation as a result of developing and strengthening cost-accounting practices. This is why the budget of a socialist state plays an active part in organising social production and why the Soviet state financial system is superior to the financial systems of capitalist states.

Chapter 14

FINANCE FOR THE SOVIET ECONOMY

Structure of Expenditure on Financing the Economy

In the current twenty years, the major economic objective before the Party and the Soviet people is to create the material and technical basis of communism. To achieve this objective a huge amount of resources is necessary and must be used in the most efficient way.

Both budgetary resources and the resources of enterprises and organisations go to provide finance for the economy. This combination of sources of finance enables a high rate

of economic growth to be secured with monetary backing and it helps to strengthen cost accounting.

Since the administrative reorganisation of industry and construction which resulted in an increase in the profitability of enterprises, the proportion of their own resources in the total finance of the economy has been steadily increasing although budgetary resources have remained more important.

More than 40 per cent of all budgetary expenditure is earmarked for the economy. The bulk of the resources allocated to financing the economy go into industry, agriculture and transport.

The tasks of building communism require that full use be made of the rich natural resources especially in the eastern regions of the Soviet Union, that productive forces be located more rationally and economic regions develop in a more all-round way, and that new industries be mastered.

During the twenty years, 1960-80, the Programme of the C.P.S.U. envisages that substantial changes will take place in the structure of industry. New industries will develop at a particularly high rate ensuring rapid technical progress. Above-average growth rates will be achieved in electricity production. Metal, fuel and chemical industries will advance in every way possible, as will machinebuilding, which is the basis of complex mechanisation and automation. It is essential for the building of communism that agriculture should be developed intensively and made highly productive concurrently with the accelerated growth of a powerful industrial sector and of all types of transport. In conformity with these tasks, the proportions in which resources are earmarked for financing the economy are changing. There has been a considerable increase in allocations for developing metallurgy, chemistry, machinebuilding, power, agriculture and light industry.

Expenditure on financing the economy is allocated separately for Union republics, all-Union ministries and departments. Expenditure on the national economy for each Union republic is in turn fixed under a separate head for each Union and republican ministry and department. Alongside the administrative and territorial division, expenditure on financing the economy is divided up in the plan among heads corresponding to the most important industries, agriculture and transport; and by specific purposes (capital investment, work-

ing capital, non-productive expenditure to meet state requirements, etc.).

This system of planning expenditure for the economy enables the balanced development of the branches of the economy to be achieved, taking as a basis the interests of the country as a whole and giving due consideration to local needs.

The amount to be earmarked for the economy, the way it is to be used and where it is to come from are all settled when the budget and the financial plans (the estimates of income and expenditure) of the branches of the national economy are approved. The sources and methods of financing the economy depend mainly on the purposes to which the resources are to be put.

The following outlays on the national economy are financed either partly or in full by the budget: (1) investment in the fixed assets of state cost-accounting enterprises and organisations; (2) outlays on the working capital of state cost-accounting enterprises and organisations; (3) expenditure of state cost-accounting enterprises and organisations which is not covered by the planned proceeds from the sale of output; (4) expenditure on operations–i.e., expenditure on state measures which are not included in production cost (e.g., land use surveys); (5) the costs of creating state material reserves.

In addition, the credit resources of banks are supplemented by state budgetary allocations.

The main part of budgetary resources and a considerable proportion of an enterprise's own resources earmarked for financing the economy are allocated to capital investment. In 1962, 60.8 per cent of budgetary resources allocated to financing the economy and 47 per cent of all the resources of enterprises and economic organisations were allocated to capital investment.

When budgetary resources are allocated to state enterprises for investment, to replenish their working capital and cover expenditure on operations, different methods are used in each case. However, there are several general principles which apply to all the different purposes covered. Primarily, these are: the allocation of resources for *planned and stipulated purposes*; the provision of finance in the form of *non-returnable grants* and only *insofar as the plan is fulfilled*;

control by the ruble to check the use of resources and to ensure that cost-accounting practices are followed. This system of providing finance promotes the rational use of these resources and provides incentives to plan fulfilment.

Finance provided by the budget is non-returnable only in relative terms since the resources allocated go towards developing the socialist economy and make possible increases in output and incomes and hence in monetary accumulation, a considerable part of which passes into the budget, while the rest remains at the disposal of the enterprises which are themselves state property.

The chief and decisive criterion in the whole system of financing the economy of the U.S.S.R. is that an immutable law of economic development must be unrelentingly observed: in the interests of society, maximum results must be achieved with minimum outlays.

Financing Capital Investment

Capital investment is the money expended on creating new productive and non-productive fixed assets and the reconstruction and extension of existing fixed assets. Capital investment plays a very important role in creating the material and technical foundations for a communist society. Fixed productive assets are the chief element of national wealth. The volume of capital investment and the amount of new fixed assets to be brought into use are stipulated in the national economic plans.

The following data (in comparable prices) show the increasing rate of growth of capital investment in the U.S.S.R. Taking as 100 per cent the average annual volume of investment made in the First Five-Year Plan by state and co-operative organisations (excluding collective farms), it was 187.5 in the Second Five-Year Plan, 268.8 in the Third, 200 in the years of the Second World War, 437.5 in the Fourth Five-Year Plan, 837.5 in the Fifth and 1,400 per cent in the years 1956 to 1958. The Seven-Year Plan for the development of the economy of the U.S.S.R. envisages a further considerable increase in investment—by 80 per cent.

Investment is divided up according to its use into investment in industry, transport, agricultural production, trade

and storage, housing construction, etc. About half of all capital investment goes into industry, mainly into heavy industry. In regions where natural resources have recently been discovered new enterprises are under construction and in regions of mainly manufacturing industries more emphasis is placed on reconstruction and extension of existing enterprises. In many cases the large-scale reconstruction, extension and re-equipment of existing enterprises uses less investment than the building of new enterprises, and is accompanied by a rapid growth in productive capacity, output and productivity and a reduction in production costs. The building up of productive capacity is a gradual process and so it is very important that existing technology should be used efficiently and to the full. The Programme of the C.P.S.U. shows that it is necessary to increase the efficiency of capital investment, to select those types of investment which are most economical, to achieve a maximum increment in output per ruble invested and to shorten the recoupment period.

Capital investment is expenditure on building and erection work, on acquiring equipment, instruments, implements, etc. The main part of this expenditure goes on building and erection work, although the importance of this item is gradually decreasing. In recent years the cost of building and erection work accounted for about 55 per cent of investment in industry. The Communist Party insists on a steady improvement in the structure of investment through an increase in the proportion of the total which is spent on acquiring equipment, machinery and machine tools. According to calculations by the State Committee for Construction of the U.S.S.R. (Gosstroi), expenditure on building and erection work will fall to 45-40 per cent of the total volume of investment in industry during the current twenty-year period, and the proportion of expenditure on equipment in the total will correspondingly increase. This will be of great importance for increasing the efficiency of capital investment.

Capital projects and estimates must be sound from an economic point of view and at the same time must take into account the latest achievements of science and technology. Standardised draft planning must be used more extensively. Projects must be submitted to experts for their appraisal. The approved completion dates must be adhered to. All these factors play an important part; and it is of particularly great

importance to plan correctly if the huge amounts of resources earmarked for investment are to be used more efficiently.

Under the planning system introduced in 1962, the volume of investment and building and erection work are fixed in advance for the whole construction period; the amount in each year is shown separately. The programme must be backed by the appropriate physical resources; the money allocated must conform to approved standard unit costs; and the whole job must be properly phased. New projects can be included in the plan only if analogous construction jobs already in progress have all the materials, money and men they need and are being completed to schedule.

Projects which are of special importance to the country are listed with their investment allocations in the plan for the economic development. Investment in other projects is planned as an aggregate sum for each Union republic, all-Union ministry and department, the most important branches of the economy being shown separately.

Lists of projects in progress (title lists) whose estimated cost is over 2.5 million rubles, are approved by the Councils of Ministers of Union republics and by ministries and government departments after consulting the State Planning Committee of the U.S.S.R.

A standard set of rules for determining the economic efficiency of capital investment and new machinery in the economy of the U.S.S.R. was worked out, so that the efficiency of investments could be maximised. This was approved by the Presidium of the Academy of Sciences of the U.S.S.R. on December 22, 1959. This set of rules, and similar sets of rules for individual branches of the economy, are used by financial organs and banks when they provide finance and credit for capital investment.

Under socialism, investment in productive assets is intended to secure continuous growth of output and an increase in the productivity of social labour. *The coefficient of total (absolute) efficiency* is an index of the economic efficiency of total investment in the whole economy. It is the ratio of the increment in net product to the amount of capital investment which gave rise to this growth.

Some specific indices of the economic efficiency of capital investment are: the amount of investment per unit of output or per unit of capacity (the relative investment); the required

output per man or production costs at new, enlarged or reconstructed enterprises (taking transport costs into account); the construction period of the project; the profitability of the resulting output and the recoupment period of the investment.

Where the same amount of investment is made in projects with different production costs (other conditions being equal) the variant with the lowest production costs is chosen; if the production costs of the variants are the same and the amounts of investment required differ, then the one requiring the least investment is chosen.

The problem is more complicated to resolve when the variant requiring the largest amount of investment has the lowest production costs. Here it is necessary to fix a recoupment period for the additional investment, i.e., a *coefficient for comparing the efficiency of capital investment.*

In deciding which variant is the most efficient, other factors besides the recoupment period are taken into account: the effect of the planned investment on allied branches of the economy, labour productivity, the raw materials, fuel and equipment needed, the extent to which equipment is used, the up-to-dateness of construction, etc., as well as the length of the construction period and the dates at which the new productive capacity will come into use. This last factor plays an important part in gaining time in peaceful competition between socialism and capitalism.

If, in one variant, construction work is planned to extend over more than one period (e.g., in two or more stages) then in comparing the efficiency of the variants the costs of the later years must be made comparable with the present year by using a compound interest formula, taking into account the efficiency coefficient for the branch of the economy concerned. If the length of the construction period is limited to a few years a simple interest formula is used.

It is of great importance to check the return obtained from capital investment. There must be a check on the indices shown in the projects and the estimates for the volume of production, productivity of labour, production costs and profitability. This check must be carried out both when these indices are included in the investment plan and when budget allocations and the resources of enterprises and economic organisations are being spent.

The Programme of the C.P.S.U. emphasises the necessity for all branches of the economy to improve and adhere strictly to progressive, scientifically based standards for the degree of utilisation of the means of production. An important index of the degree of utilisation of productive assets is the output attained per ruble of its value.

Budgetary resources are the most important source of investment finance. The main part of state investment is made from budgetary grants. The rest is made from depreciation deductions, profits and other resources of enterprises and organisations.

The amount of finance from these sources (resources of enterprises and organisations and budgetary resources) for investment is fixed when the budget and financial plans are approved. When the budget and the balance sheets of income and expenditure have been approved the Ministry of Finance of the U.S.S.R., the Ministries of Finance of Union republics and the local financial organs communicate the annual investment finance plan to the banks (the plan has a quarterly breakdown).*

The Construction Bank provides the main part of investment finance. The Construction Bank and the State Bank hold the resources of economic bodies which are intended for capital investment.

The banks finance the capital investment of state enterprises and organisations in accordance with the national economic development plan and with the State Budget of the U.S.S.R. They check that resources intended for capital investment are used properly, that the plans for investment and for new productive assets to be brought into operation are fulfilled, that costs of building and erection work are reduced, that estimated costs are kept to, that plan and financial discipline is maintained and that cost-accounting methods are strengthened in the construction work. This control is exercised both before and after the event.

The banks have the right to make surveys of projects under construction, the work being done by building contractors, to carry out measurements of work done, to use

* In the case of certain investments, the banks grant credits within the limits of the amounts assigned for these purposes in the credit plans of the banks. Investment in excess of the state plan may also be made from special sources (the enterprise fund, etc.).

financial sanctions when waste is discovered and to give financial rewards to those building or contracting organisations that work well.

There is a priority system for financing construction jobs of special importance and those whose complete equipment is imported. When the plan has been overfulfilled, resources are granted for these constructions irrespective of the quarterly or annual grants as long as it is within the limits of the overall sum earmarked in the annual investment plan for the Union republics, all-Union ministries or government departments.

The methods for providing finance and exercising supervision are determined according to the way in which the project is built—by contract or directly.

There is a special method for planning and providing finance for capital repair. Capital repair plans are compiled separately from investment plans. In enterprises and organisations working on a cost-accounting basis, capital repairs are financed from part of the depreciation deductions, while those enterprises and organisations which come under the budget are financed from budgetary resources. From January 1, 1963, new depreciation rates were introduced. The finances for capital repairs are met mainly by the state. The Construction Bank provides finance for the costs of capital repairs in contract and designing organisations and for geological surveys.

Financing Working Capital, Expenditure on Operations and Other Outlays

At the present time, the working capital of economic bodies is divided into two sections: the *organisation's own,* and *loan,* or bank, working capital. The ways in which these sections of working capital are used differ. The working capital belonging to a particular state enterprise or organisation is used by it independently for its planned objectives. Loaned resources return to the bank after serving the purpose for which they have been issued.

In industry, about two-thirds of working capital comes from the enterprises' own resources. Loan resources (bank credit) are the most important source of working capital in trade. They are relatively unimportant in agricultural enter-

prises since, at the beginning of the year, most operations of a seasonal nature for which credit is granted, are already completed.

The amount of their own working capital in state enterprises and organisations is fixed in their financial plans (their balance sheets of income and expenditure). The size of working capital depends on volume of output, the nature and organisation of production, the standards for consumption of raw materials and supplies, etc., and the length of time required for the turnover of capital in both production and circulation.

The amount of working capital in the economy of the U.S.S.R. constantly increases mainly because new enterprises come into operation and the output programmes of existing enterprises expand. New enterprises which are brought into use are allocated some working capital of their own from the profits of the ministries or government departments to which the enterprises concerned are subordinated; the remainder is supplied from budgetary resources (after allowing for permanent liabilities). Working capital intended to facilitate the extension of the economic activities of existing enterprises is provided (after allowing for the surplus of working capital at the beginning of the year and the growth of permanent liabilities) through credits.

At the present time, measures are being taken to ameliorate material and technical supplies for the national economy and to improve the fixing of standard amounts of working capital.

Credit resources are made available to supplement working capital when the production, trading and other activities of economic organisations are expanded; the utilisation of the enterprise's own resources is taken into account when the amount is decided. This system for financing working capital encourages the fulfilment of the plan for production and sale of output, the maintenance of a regime of economy and the exercise of control by the ruble over the economic and financial activities of enterprises.

Grants are made from the State Budget for carrying out economic measures of national importance which are not directly connected with creating products or their sale. These include expenditures on land organisation, the planting and extension of forest shelter belts and the pest control. Such outlays are usually called operational costs, and are financed

by the Construction Bank, or the State Bank on very similar principles to those applied in the case of investment.

Planned losses of certain enterprises and economic organisations are also met by the budget, through state subsidies. The size of planned losses is determined as the difference between planned production costs and the enterprise's wholesale prices. Planned losses are reimbursed by the institutions of the State Bank, within the limit of the budgetary allotment for this purpose, as the finished output is dispatched from the enterprises concerned.

However, a subsidy system weakens cost accounting and undermines the regime of economy. The making of profits in every enterprise and the elimination of the subsidy system is an important economic objective.

For a planned balanced development of the socialist society it is most important that state material reserves be formed and budget allocations are made for this purpose. In addition, in Union and republican budgets corresponding reserve funds are put at the disposal of the Council of Ministers of the U.S.S.R. and of Union republics.

Chapter 15

EXPENDITURE ON SOCIAL AND CULTURAL MEASURES

Expenditure on Social and Cultural Measures; Its Role in Creating the Social Consumption Fund

Expenditure on social and cultural measures is subdivided into three main groups: education, public health, social insurance and social security (including allowances to large families and single mothers).

Social and cultural measures are being carried out by the Soviet state on an ever-increasing scale in order to attain the following objectives:

First–they are an important factor in the continuous improvement in the material welfare of the working people.

In a socialist society, in addition to the personal income which they receive when national income is distributed initially in the form of wages, the people also obtain further benefits in the form of free education, free medical treatment, pensions, allowances, grants and free or subsidised maintenance in sanatoria and rest homes. All these payments and subsidies constitute a large addition to wages and are made from the social consumption funds. In 1963, payments and subsidies to the population amounted to 34,300 million rubles and in 1965 they will reach about 40,000 million rubles.

The Programme of the C.P.S.U. emphasises that social funds are of growing importance both in satisfying the individual demands of each person in the period of the full-scale construction of communist society and in reaching the objective of achieving a higher standard of living in the Soviet Union than in any of the capitalist countries.

Further improvement in the material welfare of the people in the Soviet Union does not depend merely on wage increases and price reductions. Of course, for a long time to come, the main form of economic incentive for employees will still be wage payments for work contributions to social production. However, at the same time, Soviet man will receive an increasing share of his material wealth and cultural benefits from social funds.

The social consumption fund is a truly communist way of increasing the economic welfare of every member of society by an equal amount. Through it the population obtains well-appointed housing, free education and public health services, material security for the disabled members of society, the maintenance of children in children's institutions, etc.

Second–social and cultural measures provide the necessary conditions for raising the cultural and educational level of the working people, for training specialists with higher and secondary qualification and for scientific progress and development. All these provide the basis for increased labour productivity and for the introduction of new methods and advanced technology in all branches of the economy.

In addition, these measures are necessary to solve successfully the problem of the communist education of the working people and especially the younger generation.

Budgetary appropriations for social and cultural measures are being increased from year to year, and create a stable financial basis for putting into practice the rights of the Soviet people as guaranteed by the Constitution of the U.S.S.R. in respect of education, free medical treatment, leisure, material security in old age and in cases of temporary or permanent disablement.

An important part in the economic and cultural development of the country is played by the training of specialists with higher and secondary qualification. Over three million students are being educated in establishments of higher education. About three times as many engineers are graduating each year as in the U.S.A. The number of students in technical colleges and other secondary specialised educational institutions amounted, in 1964-65, to over 3.3 million persons or 60 times as many as in 1914. The practice of training specialists without withdrawing them from production has become widespread. Great attention is being paid to the training of specialists for the new branches of science and technology and to effecting measures to improve the training of young specialists.

In the Soviet Union, the Law on Strengthening the Ties Between School and Life and the Further Development of the National Education System in the U.S.S.R., is being put into practice. Among the measures for the reorganisation of the school, those concerned with universal secondary education and the expansion of evening and correspondence courses in secondary and higher education are of particular importance. A shorter working day and substantially improved standard of living will establish conditions in which higher and secondary special education are available to all who wish to study.

The state is spending large sums on science. Soviet scholars, engineers, technologists and workers have devised the best jet and turboprop passenger aircraft in the world; they have built atomic power stations, launched an atomic icebreaker, constructed intercontinental ballistic missiles; and they were the first to launch earth satellites. Soviet man was first in penetrating space. The genius of the Soviet people and the power of a country where socialism has been victorious has its reflection in the heroic deeds of the cosmonauts Gagarin, Titov, Nikolayev, Popovich, Bykovsky, Koma-

rov, Yegorov, Feoktistov, Leonov and Belayev and the first woman astronaut Valentina Nikolayeva-Tereshkova.

In the U.S.S.R. great significance is attached to the growth of cultural and educational institutions and the improvement of their work. The present stage in the development of the country is characterised by a further rapid advance in the standard of socialist culture, an improvement in the intellectual and artistic level of Soviet society, an increase in the awareness and cultural and professional standards of the workers and peasants. This constitutes one of the important prerequisites for a rise in the productivity of social labour and for moulding the new man of a communist society.

In the current twenty years, the major part of the members of Soviet society will receive secondary, specialised secondary or higher education. Much attention is being paid to the further development of educational institutions in which children are brought up collectively: preschool children's institutions, boarding schools and day-care schools. Expenditure of the Soviet state on maintenance of children and adolescents will be over ten times as large.

Very good prospects exist for the further development of science and the introduction of its achievements throughout the economy.

Towards the end of these twenty years, the output of books will increase by 150 per cent and will reach 2,800 million copies. The number of clubs will grow from 129,000 to 200,000. The number of libraries and museums will expand considerably.

Cultural progress in the Soviet Union is founded upon the friendship and collaboration of all peoples. Every nation has its own contribution to make to multinational socialist culture.

The Programme of the C.P.S.U. envisages the steady growth of all forms of cultural co-operation and intercourse between the peoples of socialist countries, exchanges of cultural achievements, an active effort to promote the mutual enrichment of national cultures and the drawing closer together of the ways of life of socialist nations.

The expenditure of the Soviet state on public health is allocated to measures to safeguard the health of the population, prevent disease, treat it, and secure the all-round development of the physical and spiritual potential of

members of society. The rapid increase in population and the sharp reduction in the morbidity and death rates indicate the successes achieved in this field.

The U.S.S.R. has more doctors per inhabitant than any other country. The total number of doctors (excluding dentists and doctors in the armed services) reached 523,000 in 1964, 19 times the 1913 figure. For every ten thousand of the population there are 23 doctors, while there were 18 in the U.S.A. (1962), 14 in the United Kingdom (1960) and only 4 in Turkey (1965).

By 1961 the number of hospital beds available (excluding military hospitals) was nine times as many as in 1913 and exceeded 1.8 million. By the end of 1965, because of new building, the number of hospital beds will double and places in crèches will increase by 150 per cent as compared with the increase in the preceding seven years. Output of medicines, drugs and medical instruments, including equipment utilising atomic energy for medical purposes, is increasing rapidly. It is also intended to enlarge clinics in order to provide more specialised medical help for the population.

The Programme of the C.P.S.U. envisages that extensive measures will be carried out to prevent disease and to reduce its incidence substantially, and to increase the expectation of life. The needs of the urban and rural population for all types of highly skilled medical services will be fully met. The existing medical services which are provided without charge will be supplemented by providing both medicines and treatment in sanatoria free of charge. Mass participation in sports and physical culture will be encouraged in every way.

The scale on which social and cultural measures are financed will grow with the extension of the cultural and educational activities of the Soviet state on the basis of the powerful growth of the economy. Budgetary expenditure for these purposes (in comparable prices) had increased by 150 per cent in 1962 compared with 1950. Social insurance and social security allowances have increased by 180 per cent: this is a result of the considerable increase in pensions provided for in the Law on State Pensions (1956) and of a substantial increase in the number of sanatoria and rest homes. Expenditure on education increased in this period by 100 per cent

as a result of putting into practice the measures for the polytechnisation of schools and creating the material basis necessary for this (building new schools, workshops and laboratories, etc.). Additional grants were also required for setting up boarding schools. The rapid increase in expenditure on public health was due to several factors: the number of medical establishments increased; from November 1, 1955, wages of medical employees were raised; there was an increase in expenditure on catering, medicines and dressings, and on equipping X-ray, physiotherapy and other departments.

	Average yearly		1966 planned
	Fourth Five-Year Plan	Fifth Five-Year Plan	
Total expenditure on social and cultural measures,			
thousand million rubles	10.5	13.2	40.4
per cent	100.0	100.0	100.0
including:			
Education and culture,			
thousand million rubles	5.2	6.2	18.8
per cent	49.3	47.2	46.6
Public health and physical culture,			
thousand million rubles	1.9	2.6	7.0
per cent	18.0	19.4	17.3
Social insurance and social security,			
thousand million rubles	3.4	4.4	14.6
per cent	32.7	33.4	36.1

Expenditure on cultural and social measures is a very high proportion of total budgetary expenditure: it amounted to 26.3 per cent during the Fifth Five-Year Plan and to 37.6 per cent in 1965. These figures demonstrate the concern shown by the Party and the Government for a continuous rise in the economic and cultural standards of the Soviet people.

In the period of the full-scale construction of communism in the U.S.S.R., public funds are growing in importance as a means for satisfying the various needs of the people. Expen-

diture on education, public health, social insurance and social security are very important items of these funds.

By the end of the twenty years, social consumption funds will make up about half the aggregate real income of the population. This will enable the state to provide free maintenance for children in children's institutions and boarding schools, material security for the disabled, free education in all educational establishments, free medical services including treatment in sanatoria and free medicines for the population. It will become possible to increase holidays with pay and to award state allowances, pensions and grants on an ever increasing scale.

In capitalist countries, state expenditure on social and cultural measures is insignificant and is subordinated to the interests of the ruling classes. It amounts to only two-three per cent of the expenditure of the central budget in the majority of capitalist countries. Expenditure on education in bourgeois states is contingent upon the necessity of training workers for mechanised capitalist production and personnel for the army. In the U.S.A. only two dollars out of an average of 629 dollars levied per head in taxation are spent on public education and building houses.

In the U.S.S.R. and other socialist countries expenditure on social and cultural measures is an important factor in increasing the real income and cultural standards of the population and it helps to promote the further economic development of the country. As the outlays on social and cultural measures increase, the cultural and educational standards of the working people improve, the training of personnel for the economy and its culture is extended, the health of the workers and their capacity to work is safeguarded, and scientific and technological progress takes place. On the other hand, the successful development of socialist economy and the growth of national income enable the state to increase appropriations for social and cultural measures.

Finance for Education and Health Service

In providing finance for education and the health service, the main objectives are:

(1) to secure a regular supply of finance for a large network of schools, libraries, secondary specialised and higher educational establishments, hospitals, sanatoria and other

institutions. Finance is provided on the basis of estimates and in conformity with the fulfilment of the plan in respect of the number of institutions, number of staff, and number of persons served by the institution; the way in which resources already made available have actually been used is taken into account;

(2) to keep a continual check that expenditures are made rationally, economically and strictly in accordance with stated purposes;

(3) to reveal non-budgetary resources and use them efficiently.

In the financing of education, culture and the public health service funds are earmarked for specific measures and types of expenditure.

FINANCE FOR EDUCATION AND CULTURE. State expenditure on education and culture includes expenditure on general education and training for children and adolescents (primary and secondary schools, children's homes, boarding schools, kindergartens, etc.); general educational and cultural work among adults (libraries, houses and palaces of culture and clubs); training of personnel (technical schools, and other secondary specialised educational establishments, technical colleges and higher educational establishments); the maintenance of scientific and research establishments, museums and exhibitions; the arts, press and television.

The majority of measures and of establishments in both education and culture are financed by the estimate system, i.e., all expenditure on extending activity and on current maintenance is covered by the budget. Some organisations operate on the basis of cost accounting (publishers, cinemas, scientific and research establishments attached to branches of the economy, theatres and zoos). Enterprises such as educational workshops may be attached to budget-financed institutions and serve their economic or educational requirements; these enterprises are run on a cost-accounting basis.

Besides budgetary grants, the resources of state, co-operative and collective-farm and public enterprises and organisations are used for financing education (deductions for the funds for cultural purposes, for building schools and clubs).

A part of the cost of maintaining children in kindergartens and boarding schools is paid by the parents (on average not more than 25 per cent of the total cost). The resources of

the rural population in the form of what is raised by self-taxation are also used to provide finance for these expenditures.

More than 10 per cent of all finance for education is provided by state, co-operative and voluntary enterprises and organisations. As the profitability of enterprises increases and the incomes of collective farms grow, the objective prerequisites are being created for a further increase in finance from this source.

Most education grants come from republican and, in particular, local budgets. During the Fifth Five-Year Plan, expenditure on education from the budgets of Union republics amounted to about two-thirds of the total. At the present time, in connection with the measures for developing agriculture which are being carried out by the Party and Government, the part played by district and village budgets in providing finance for the growing cultural needs of the countryside is increasing considerably.

Expenditure on social and cultural measures is planned on the basis of operational indices and standard costs. The volume and purpose of resources allocated from the budget to maintain an establishment or extend its work are fixed in its *estimate*. Each school, hospital, technicum or institute has its own estimate, approved for the coming year, with a quarterly breakdown. This is called the estimate *for a particular institution*. It is made up of three parts. In the first part come indices showing the extent of the operations of the establishment (e.g., the number of pupils and classes in a school). In the second part, an amount of finance is fixed for each item in the budgetary classification (such as wages, additions to wages for social insurance, office and maintenance expenses, expenditure on teaching aids, etc.). The third part of the estimate shows the reason for each type of expenditure included in the estimate: calculations to justify the proposed wage fund, expenditure on teaching aids, office and maintenance expenses, etc. The estimates for each establishment are combined together for all the establishments of the same type, and are put with the estimate of expenditure on centralised measures for the branch of activity to form *an aggregate branch estimate*.

The introduction of standard unit costs simplifies the drawing up of estimates and allows a more stringent control. In this way, each establishment of the same type gets its fair

share of resources. At the same time, a system of standard costs helps to save resources, to use them more rationally and see that they are spent on the purposes intended.

Standards are fixed separately in physical and in financial terms, which take into account the specific conditions in which an establishment works and the economic conditions peculiar to the region. They are used for drawing up estimates for a particular institution. *Standards in physical terms* fix the amount of expenditure on items in the accounts in physical terms (e.g., quantity of electricity per square metre of school area). *Standards in financial terms* are a monetary expression of the standards in physical terms, calculated at state prices.

In cases where finance is provided for an establishment from other sources besides the budget (e.g., the payments by parents for maintaining kindergartens and boarding schools), a distinction is made between standards in financial terms which apply to the total volume of expenditure and *budgetary standards* which correspond to that part of the expenditure which is met by the budget.

The great variety of standards and the extent of the differences between them make it difficult to use them for calculating aggregate branch estimates. Therefore, for aggregate planning, *consolidated standard costs* are used which reflect aggregate expenditures on an accounting item, e.g., in schools–expenditure per class or per pupil. For certain institutions (village reading-rooms and libraries) a standard estimate is used in place of the consolidated standard costs, stating the total expenditure on a whole institution.

Standard costs may be obligatory or for guidance. *Obligatory standards* are fixed by the Government (wage rates, the staff establishment of an institution, unit costs for catering in hospitals and children's institutions and standard travelling allowances). *Standard costs for guidance* (office and maintenance expenses and cost of teaching aids) are fixed by government departments with the agreement of financial organs. These take into account the special features of the work of the institution concerned. It is exceptionally important to draw up suitable standards so that operating conditions may be on the same basis for institutions which come under the budget, and so that a regime of economy may apply when state resources are paid out.

Expenditure planned in an estimate is divided into *capital outlays* and *current expenditures on maintaining the institution.*

Expenditure on operations and expenditure on administration and management are shown separately under the heading current expenditure.

Operational (functional) expenditure is determined by the type of work of the kind of institution concerned; it covers the specific functions of the institution. In educational establishments it includes wages of teaching staff, cost of teaching aids, expenditures on practical productive work done by pupils or students.

Expenditure on administration and management includes expenditure on maintaining managerial and junior service staff, office and maintenance staff and travelling allowances, etc.

Large appropriations are made for building schools. In post-war years, over 30,000 schools with 12 million places have been built at state expense; and 34,000 schools with 3.6 million places on the initiative of collective farms and with their funds. Investment on the construction of boarding schools is increasing. Forty-eight such schools were built in 1958, and 300, with 128,000 places, in 1963.

Appropriations for wages and additions to wages are very important items in the budgetary expenditures on social and cultural measures. About half of all budgetary resources for education and culture are used for this purpose. Funds are paid from the budget in accordance with the staff establishment and the fixed wage rates, taking into account the teaching load and other conditions. Considerable amounts are spent on students' grants. Free tuition is provided for all students in technical schools and higher educational establishments and the majority of students receive grants.

In view of the reform which has been carried out in secondary and higher education aimed at strengthening the ties between the school and industry, it has become very important to provide enough money to enable education and socially useful work to be combined. Expenditure on teaching aids, practical productive work and on equipment and tools is increasing from year to year.

Part of these resources are spent on food for children in kindergartens, children's homes and boarding schools.

FINANCE FOR THE PUBLIC HEALTH SERVICES. In the field of public health, finance is provided for the following institutions and measures:

establishments and measures for the prevention and treatment of disease (hospitals, dispensaries, out-patient polyclinics, first-aid stations and medical posts in enterprises, etc.);

institutions for promoting sanitation and preventing epidemics (sanitation and anti-epidemic centres, anti-malaria centres, measures to fight epidemics, centres for education in hygiene and measures for education in hygiene);

children's preventive clinics (crèches, health centres for mothers and children);

therapeutic establishments and measures for helping Second World War invalids (military hospitals and sanatoria, etc.);

other institutions and measures (forensic medical bureaux, etc.).

In compiling estimates for public health institutions the following are used as the main indices in the national economic plan: for hospitals–number of beds; crèches–number of places; out-patient surgeries–number of medical posts, i.e., the number of doctors on the staff.

The main types of working expenses in the public health services are the wages of medical personnel, catering costs and expenditures on medicines. The wages of medical workers are differentiated according to the post occupied, qualifications and length of service. For medical personnel who run institutions (medical superintendents and their deputies) the number of medical posts in the institution concerned is taken into consideration.

Expenditure on the public health service is planned by using standards.

The chief source of finance for covering expenditures on the public health service is budgetary grants. In addition, finance is provided by parents (contributions for the maintenance of children in crèches), state enterprises (deductions from the enterprise fund), co-operative and collective-farm organisations and others.

A considerable amount of the expenditure on physical culture is covered from the resources of trade unions, co-operatives, etc.

Chapter 16

STATE SOCIAL INSURANCE AND EXPENDITURE ON STATE SOCIAL SECURITY

Significance of State Social Insurance and Security

Social insurance in the U.S.S.R. is one of the ways by which the national income is distributed. Whilst raising the material welfare of the working population it is also used as a means of organising labour in socialist enterprises, offices and organisations.

Although the major part of the workers' income consists of payment according to the amount and quality of work done, they and their families also receive large additional payments in the form of allowances, pensions, grants, free and preferential rates for accommodation in sanatoria and holiday homes, free education and medical services, etc.

The Soviet state is very concerned for the material welfare of its citizens who have either temporarily or permanently lost their capacity for work. Thus the state sets aside a special insurance fund for the working people in all state enterprises and institutions, as well as a fund for social security.

A person's right to material security in old age and in cases of illness and loss of capacity for work is established in the Constitution of the U.S.S.R.; this right is guaranteed by the system of state social insurance with its allocation to the working people of free medical treatment and other services.

It also makes a reality of their right to leisure, provides maternity benefits, and ensures the participation of women in the social life of the country. Women receive allowances during pregnancy and confinement and child allowances are paid to mothers with large families and to single mothers. There is also a wide network of health resorts, holiday homes and children's educational institutions.

As socialist production develops and national income grows, the state's allocations to social insurance and social security also increase. At present these items absorb more

than 40 per cent of the total budget expenditure on social and cultural services. The programme for further raising the standard of living of the Soviet people, adopted in 1956, included the new state Pension Law which considerably raised pensions.

This law substantially improved the system and conditions for the granting of pensions and extended to more people the right to receive state pensions. New brackets of citizens (e.g., students in higher and secondary specialised educational institutions, colleges, schools and training courses for specialists) received the right to pensions. Obsolete limitations on receiving a pension were removed and factory and office workers were granted more favourable rights; in particular pension rights were extended to those who had not completed the standard length of service. A considerable pension increase was granted to the lowest-paid workers. The standard rate of old-age pensions was doubled, and for certain groups was increased by 150-200 per cent. Maximum and minimum levels of pensions were established.

The size of the factory and office worker's pension is determined by his actual earnings in conformity with the socialist principle of payment according to work done. The introduction of family allowances and other additions to the total pensions has improved the pension benefits.

The new groups qualifying for pensions and the higher rates of pension meant considerable extra expenditure by the state. In 1962 11,300 million rubles was spent on social insurance and social security, nearly 150 per cent more than in 1955.

The Programme of the Communist Party lays down that within the next twenty years society will guarantee the maintenance of all those who are unable to work. In the second decade a gradual transition will be made towards a single system of pensions for all people incapable of work. Allowances for temporary loss of capacity for work and old-age pensions now also apply to collective farmers.

A centralised all-Union fund for the social security of collective farmers was set up on January 1, 1965. It was financed from two sources: payments by collective farms (4 per cent of their gross income) and state budget appropriations. In 1965, 1,000 million rubles from the gross incomes of collective farms and budget grants amounting to 400 million

went into the fund. In 1965, 30 million people were drawing pensions.

Deductions from collective farm incomes and budget allocations to the centralised fund are paid into a special account in the State Bank. The farms themselves dispose of these sums. Special councils at farm, district, regional, territorial and republican level deal with pension problems. These representative bodies of the farms are formed on a voluntary basis.

Pensions to war invalids and minimum disability pensions for factory and office workers were raised in 1965. From 1959 to 1963 the state spent 40,000 million rubles on pensions, a sum approximately equal to that spent for this purpose during the antecedent 30 years.

State social insurance and social security are the two forms of material security for all citizens of a socialist society in old age, or when they have temporarily lost their capacity for work. There is much in common in the way both are put into effect. For example the pensions for social insurance and social security are paid on the same conditions and at the same rates.

Social insurance differs from social security by:

groups of citizens served: Social insurance is for employed persons but social security applies mainly to war invalids and those disabled from birth;

method of administration: The trade unions are responsible for social insurance payments, but social security is dealt with by special social security organs;

source of raising the fund: Social insurance is financed by contributions from state enterprises and institutions over and above their wage funds, whereas social security is financed directly from the budget.

All these distinctions are mainly organisational. The essence of both social insurance and social security is that the funds of the community are being used to satisfy the needs of the members of socialist society who are unable to work.

State Social Insurance

Social insurance in the U.S.S.R. is one of the greatest working-class achievements to have resulted from the great October Socialist Revolution. Pre-revolutionary Russia was similar to most bourgeois states today where social insurance is very

limited and paid for mainly by the working people themselves. Lenin described the social insurance law of the tsarist government in 1912 as a mockery of the vital interests of the working people.

Social insurance in the U.S.S.R. is universal, covering all factory and office workers, and other employed persons and members of their families; and it applies to all cases of loss of capacity for work (accident, illness, old age, disablement, loss of family breadwinner). Women are provided for during pregnancy and confinement.

Social insurance is financed directly by state and social funds and no deduction is made from the wages of employees or from the earnings of the members of co-operatives. It is conducted on the principle of democratic centralism, and in particular the management of social insurance is handed over entirely to the trade unions.

In order to tie in the material and welfare services to working people closely with the aim of raising labour productivity, social insurance is organised on the basis of the industry in which people are employed.

SOURCES OF INCOME AND ALLOCATION OF SOCIAL INSURANCE. The existence of two forms of socialist property, the state sector and the collective-farm and co-operative sector, has resulted in there being a difference between the material security available for persons employed in the two sectors.

The social insurance fund is financed by contributions made by enterprises and institutions in addition to their wage bill. Those enterprises and institutions paying social insurance are known as *insurers,* and they must be registered with the regional district, or republican committee of the trade union; or, in the absence of such committees, with the regional or district trade union council.

Insurance contributions are paid at *rates* fixed by the Council of Ministers of the U.S.S.R. for each trade union as a percentage of total wages of factory and office workers. Each enterprise and institution makes its insurance payments according to the rate for the trade union of which its employees are members. The exception to this is that village and settlement Soviets pay insurance contributions at the rate for the trade union of state institutions calculated for the whole wage bill of the people they employ. Higher rates are charged

for the trade unions of persons engaged in dangerous and unhealthy industries (e.g., coal mining 9 per cent, oil and chemical industries 8.4 per cent, but state trade and consumers' co-operatives only 4.5 per cent).

The insurance contributions are spent on allowances and pensions and for other purposes included in the estimates of the factory or local committee for state social insurance (payments for travel and accommodation, etc.).

Social insurance monies are deposited in local and central current accounts of the State Bank and its agencies; the enterprises transfer the insurance contributions into these accounts after deducting the costs they have incurred. They also transfer money received from employed persons as part payment for travel and accommodation in holiday homes, sanatoria and tourist centres. The trade union organisation may decide that an enterprise must reimburse a payment for temporary loss of capacity for work on the grounds that the health of the person concerned suffered because the management committed a breach of labour protection or safety rules. Such reimbursements are also paid into the state social insurance budget. A fine is paid in the event of arrears in payment.

Committees and councils of the trade unions and audit commissions of trade union bodies check that social insurance contributions are paid in on time and in full, and that expenditures are made properly.

Social insurance contributions of enterprises on cost accounting are included in the costs of production and paid out of current income. In trade organisations social insurance contributions are included in distribution costs. Institutions financed by the budget include social insurance contributions in their estimates and they are covered by allocations from the budget.

Social insurance expenditure may be divided into the following items:

allowances for temporary loss of capacity for work (in cases of illness, injury, pregnancy and confinement);

pensions for old age, disablement, long service, loss of family breadwinner, etc.;

expenditure on the provision of holiday and rest homes, sanatoria and health resorts and on free and reduced rates for accommodation;

expenditure on services for children (confinement and infant care allowances, and organisation of pioneer camps and children's sanatoria);

expenditure on special diets for medical purposes;

expenditure on physical culture and recreation parks;

expenditure on training personnel and on maintenance of those scientific institutions concerned with labour and social insurance which are working to improve labour protection;

other expenditure such as burial grants for insured persons and members of their families.

The main item in the social insurance budget is pensions (for old age, disablement and loss of family breadwinner), accounting for 70 per cent of total expenditure. About 25 per cent of the expenditure goes on grants for temporary incapacity to work, and the rest is for sanatoria and health resorts for employed persons, organisation of pioneer camps, etc.

In the U.S.S.R. *old-age pensions* are paid for life to all who have reached a certain age and have worked a certain length of time as determined by law.

Old-age pensions for males begin at 60 for those who have completed not less than 25 years of service, and for females at the age of 55 for those who have completed not less than 20 years of service, irrespective of their ability to work.

Persons employed in some branches of the economy receive preferential old-age pensions as do mothers with large families, and employed persons who are blind.

The amount of the pension is a percentage of the wage received: this percentage varies between 50 (for those earning more than 100 rubles per month) and 100 (for those earning less than 35 rubles). The maximum and minimum old-age pensions are 120 and 30 rubles per month respectively. Provided the maximum is not exceeded, an addition may be made to the pension of 10 per cent for more than 15 years' continuous service, or for an increased total period of service, or of 10-15 per cent for non-working pensioners having to support members of their family who are unable to work.

People who have reached pensionable age but have not a long enough period of service have the right to a pension if they have worked for five years (including not less than

three years directly before their claim). In this case the size of the pension is proportional to the length of service but cannot be less than 25 per cent of the full pension.

Pensions for disablement are granted to employed persons in cases of permanent or prolonged loss of their capacity for work, irrespective of whether the disablement began before they started work, during their working life or after they had ceased to work.

Pensions for disablement are determined by the degree of loss of capacity for work, cause of disablement (accident at work, occupational disease or general disease), total length of service and duration of uninterrupted service, and amount of the employed person's wages before the granting of the pension.

There are three groups of disablement according to degree of loss of capacity for work.

Group I–those who have completely lost all capacity for work and need someone else to look after them.

Group II–those who have completely lost all ability to work at their own or any other skill or profession.

Group III–those who are not able to work consistently at their previous occupation under normal conditions.

Pensions for disablement are fixed irrespective of length of service in cases of disablement due to an accident at work, or occupational disease, or which occurred while at work, or after ceasing work if the recipient of the pension is less than twenty years old. If disablement is a result of a more general cause then the amount of the pension does depend upon length of service.

Preferential pensions are granted to persons employed in underground work and other jobs with difficult working conditions.

The maximum and minimum limits of pension differ according to the disablement group, the cause of the disablement and the nature of the work performed.

Long service pensions are paid to teachers, doctors, agricultural specialists, and several other classes of employed persons. In particular, doctors and other medical workers with a secondary and higher education receive pensions amounting to 40 per cent of their basic pay after 25 years service in medical and pharmaceutical work in rural areas and workers' settlements, and after 30 years of service in

towns. After 25 years of service teachers, headmasters and headmistresses and directors of studies in general education schools receive a pension equal to 40 per cent of their salary. The flying personnel of the civil air fleet are also guaranteed a long service pension if they have served for twenty years before their discharge (or transfer to other work).

Pensions for loss of family breadwinner were introduced from the inception of the Soviet state. The new Pensions Law gives considerably more people the right to a pension in case of loss of the breadwinner, and improves the rate and conditions for such pensions.

The pensions are paid to minors and members of the family unable to work and dependent upon the deceased employed person or pensioner. These include children who are minors, brothers, sisters and grandchildren under 16 years of age (18 years if still attending an educational institution), and older dependents who lost their capacity to work before they were 16 years old (18 years if receiving a formal education), and also include parents, wives or husbands of the deceased who are incapable of work or are aged.

The pension is a proportion of the wages of the breadwinner; this proportion varies according to the cause of death (illness, accident at work, or occupational disease) and number of persons in the family who are entitled to a pension.

Allowances for temporary incapacity for work (sickness) are paid at a rate which varies from 50-90 per cent of average wages according to the period of continuous service. Higher allowances (100 per cent of earnings) are made irrespective of the length of service or trade union membership if the cause of disablement is an accident at work or an occupational disease.

In order to protect the health of mother and child there are allowances during pregnancy and confinement paid during the mother's pregnancy leave, and on the birth of a child a lump sum maternity benefit is also paid from the social insurance funds.

Considerable sums are spent annually on *health resort treatment, sanatoria and rest homes,* in which more than three million persons annually enjoy free accommodation or accommodation on favourable terms, paid for by social insurance.

Allowances for medical treatment are paid from social insurance at the discretion of sanatoria or health resort selection committees, provided that payments are subsidised in whole or in part by the factory or local committees. The allowances to people incapable of work are paid in this case irrespective of who bears the costs of the accommodation.

ORGANISATION OF STATE SOCIAL INSURANCE IN THE U.S.S.R. As social insurance is conducted on the principle of self-government, it is therefore directly controlled by the working people; and the management of social insurance is carried on by the central committees of the trade unions and the republican, territorial and regional committees. Thus the organisation of social insurance corresponds to the interests of the employees.

The general management of social insurance is entrusted to the All-Union Central Council of the Trade Unions (A.U.C.C.T.U.). For each branch of the economy it is managed by the Central Committee of the trade union concerned and its local organisations. Employed persons and their families are directly serviced by the factory and local committees of the trade unions and the social insurance committees they set up.

The aggregate budget of social insurance consists of the independent estimates of the Central Committees of the trade unions and the social insurance estimates of A.U.C.C.T.U. The main items are the estimates of the factory and local committees for expenditure on allowances for temporary inability to work, for the birth of a child, for payments of pensions to persons still at work, and allowances for the burial of those insured and members of their families. The enterprise or institution pays out these sums from its insurance contributions and the higher trade union organisations cover their own expenditure from deductions from social insurance contributions.

State Social Security

State social security is paid for out of the Union, republican and local budgets, and the expenditure goes on rehabilitation, pensions, allowances and the maintenance of homes for the aged and the disabled.

Rehabilitation on a free and voluntary basis, making the best possible use of the initiative of the workers, is carried out by means of medical treatment, orthopaedic appliances, training and retraining of disabled workers in vocational schools of the Ministry of Social Security, and providing them with employment under sheltered conditions.

Pensions and allowances are paid by the social security fund to servicemen and their families, to mothers with large families and single mothers, to persons disabled from birth or owing to an accident, and to those entitled to academic and personal pensions, etc.

A considerable part of the social security fund is devoted to the *maintenance of special homes for the aged and disabled.* Pensioners who cannot live with their family, and disabled children, live in homes for the disabled and aged, or in boarding schools and specialised children's homes at the expense of the state, which provides material security together with free cultural and medical services.

State allowances for mothers with large families and single mothers are paid from the republican budgets of the Union republics. Allowances for mothers of large families were first introduced in 1936, and a Decree of the Presidium of the Supreme Soviet of the U.S.S.R. in July 1944 introduced additional measures to improve conditions for mothers of large families and single mothers, strengthening the care of mothers and children. The amount of these lump sums and monthly allowances depends upon the number of children in a family; single mothers receive a maintenance and education allowance until the child is 12 years old. Since the Decree came into force allowances have been paid for over 30 million children and at the present time about seven million mothers annually receive allowances from the state.

Pensions for members of artels were provided by mutual insurance till 1954 and since then on a co-operative basis. Since the abolition of producers' co-operatives, pensions to their former members have been granted on the same basis as to state workers.

In the collective farm, the general meeting sets aside part of the agricultural products received by the farm for helping the aged and disabled as well as to maintain crèches and provide for orphans.

In the collective-farm sector an important role is played by the mutual aid fund, formed from payments by the collective farmers and contributions from the money income of the farms. The possibility of helping collective farmers in old age and those unable to work depends mainly on the prosperity of the farm, and so the mutual aid fund reflects the economic strength of a collective farm. As the economic position of collective farms improves better pensions will be provided for the farmers.

* * *

Soviet and capitalist social insurance differ in principle by source, form and purpose.

Since social insurance conflicts with the interests of the capitalists themselves it is very limited, in capitalist countries it includes only a small proportion of employees and is far from covering all cases of loss of ability to work. A large part of the cost of social insurance is paid for out of the wages of the workers themselves, e.g., in the U.S.A. the workers and other employees pay 2.25 per cent of their wages and this covers nearly half of the cost of the total pension fund; and the average pension is only about 20 per cent of the average wage rate (60 per cent in the U.S.S.R.). American pensions begin at the age of 65 for men, 62 for women. Thus in the U.S.A. the qualifying age for a pension is higher and the pension is considerably lower than in the U.S.S.R. In Britain employees pay more towards social insurance than do their employers.

In the Declaration of the Representatives of the Communist and Workers' Parties to the peoples of the whole world it is stated that, "if the large sums now spent on armaments were diverted towards peaceful purposes, this would allow the improvement of the position of the masses, reduction of unemployment, increased wages and standard of living, and expanded housing construction and social insurance".

Chapter 17

EXPENDITURE ON ADMINISTRATION AND DEFENCE

Expenditure on Administration

Expenditure on administration in the U.S.S.R. is expenditure on maintenance of the state machinery, the work of which covers all aspects of political, economic and cultural life. As Marx explained in his *Critique of the Gotha Programme*, in socialist society a certain proportion of the national income must be devoted to those general costs of government which cannot be directly attributed to production. Marx further noted that such expenses would be considerably lower in a socialist state than under capitalism, and would fall continuously as the new society developed.

Expenditure on administration in the U.S.S.R. may be divided into two main groups, on the basis of the source from which it is financed:

(a) Expenditure on general administration is financed by the budget. General administration covers all the local and central organs of state government and state administration, these expenditures embrace: (1) maintenance of planning and financial bodies; (2) administration of the economy (maintenance of ministries and government departments of the U.S.S.R., the Union republics and the Autonomous republics, and of economic departments of Executive Committees of local Soviets); (3) maintenance of organs managing social and cultural institutions and measures (the Ministries of Culture, Education and Health, education departments of local Soviet Executive Committees); and (4) the maintenance of courts, Procurators and judicial bodies.

(b) Expenditure on administration in factories and departments, their shops, trusts, groups of enterprises and other cost-accounting bodies. These expenditures are included in production costs. Deductions from the incomes of collective farms paying for the costs of their administration also belong to this group.

Expenditure from the budget on the state administrative machinery may be divided by its purpose as follows: wages, contributions added to wages, office and maintenance

expenditure, expenditure on business and other official journeys, construction of new administrative buildings, acquisition of equipment, repairs to buildings, and other expenditure depending on the work of the particular institution.

The Communist Party and the Soviet Government are constantly endeavouring to simplify and cheapen both the state administrative machinery at Union, republican, and local levels and the administrative machinery of enterprises and organisations. Administration is being improved by simplifying its structure and bringing it closer to production, and by cutting down on unnecessary personnel.

In the period of the full-scale construction of communism, the objective is to democratise the state and economic machinery still further, so that more and more of the mass of the people will acquire the habit of administration; work in administration will in the long run cease to be a special profession.

The Programme of the C.P.S.U. emphasises that in the period of construction of communism the main direction of development of the Soviet socialist state must be to improve and extend socialist democracy, to obtain active participation by everyone in the administration of the state and management of economic and cultural work, and to improve the work of the administration and increase popular control over it. With the further development of socialist democracy the organs of state power will gradually be transformed into organs of voluntary self-government. The Leninist principle of democratic centralism will be developed still further so as to bring about a correct combination of centralised management with maximum initiative by local organs, with the extension of the rights of the Union republics and an increase in the creative activity of the mass of the population.

Improvements in the present administrative arrangements will allow transfer of personnel from administrative to production work, will reduce the cost of the administrative machinery and will bring management closer to production and improve its standards.

In socialist countries administrative expenditure is closely connected with the organisation of economic administration. Its specific weight in budget expenditure is small, less than 1.5 per cent of budgetary expenditure.

The reduction of direct budget expenditure on administration means that more money is available for the economy. The reduction of administrative costs in the cost-accounting enterprises leads to lower production costs, and increased profitability, and this in its turn makes possible an increase in budgetary revenue.

In the U.S.S.R. expenditure is planned both so as to enable requirements connected with state administration to be satisfied, and so as to enable resources spent on state administration to be controlled. The financial authorities draw up draft aggregate estimates from the draft estimates presented by the administrative organisations themselves and their own calculations, and include them in the draft budget of the district, region, or the republic. These estimates and drafts, and the estimates of the ministries and government departments financed from the Union budget, are used by the Ministry of Finance of the U.S.S.R. to prepare an aggregate estimate of expenditure on administration for inclusion in the draft of the State Budget of the U.S.S.R. After the approval of the State Budget of the U.S.S.R. by the Supreme Soviet of the U.S.S.R., the draft budgets of the Union and Autonomous republics and with them the draft estimates of administrative expenditure are finalised. An analogous procedure is followed to finalise local budgets.

The estimates of administrative expenditure are subdivided into: the wage fund of the administrative machinery, fixed from the establishment schedule; the contributions added to wages for social insurance; and allocations for administrative and business expenditure. State administrative expenditure is given a strict ceiling when approved by the higher executive bodies. The imposition of a ceiling makes it possible to use budgetary resources economically and rationally, and encourages improvements in administration.

Two methods are used for the planning of expenditure on administration: the *standard cost* or *normative method* for planning economic administrative expenditure, and the *establishment-list method* for planning wage funds for persons employed in state administration.

State enterprises and economic organisations include their administrative expenditure as part of their production and distribution costs. The director of an enterprise may approve and vary the structure and establishment of management at

the shops and departments of the works within the limits of the enterprise plan for labour and for the number of office and technical and engineering personnel; standard establishments and the scheme of administrative posts and pay for the particular enterprise are used as guides in deciding on the actual establishment. The director may also determine and change (providing labour legislation is not violated) the level of remuneration of individual employees in the factory and the shop administration, provided that he operates within the scheme of payment for administrative posts and the wage fund approved for the enterprise. The director may also authorise expenditure on business trips in excess of the amount included for this in the estimates, providing these trips are connected with studying and introducing new and advanced methods of work.

The major part of administrative expenditure goes on the wages of administrative personnel, and it is therefore very important that the size and composition of staff and their remuneration should be carefully controlled.

Expenditure on Defence of the U.S.S.R.

A socialist state spends by far the larger part of its material and financial resources on productive purposes. However, some part of its material, human and financial resources must be devoted to financing the defence of the country from possible imperialist aggression. It is the countries of the imperialist camp, headed by the United States of America, which establish aggressive blocs and alliances, intensify the arms race, organise numerous military bases on the soil of other countries, and amass great stockpiles of weapons of mass destruction under the pretence of defence from "the threat of communism".

Militarisation is advantageous for monopoly and brings prosperity to those industries connected with armaments. During the last five years the direct military expenditure of the U.S.A. has exceeded $220,000 million, and the NATO countries as a whole have spent more than $500,000 million on the arms race in ten years.

In view of this aggressive foreign policy of imperialist states, the socialist countries, especially the Soviet Union,

have very important tasks concerning the defence of peace and defence from the threat of military attack.

The Soviet state makes appropriations annually from the State Budget of the U.S.S.R. to cover the estimate of the Ministry of Defence of the U.S.S.R. This money supports the rocket and land forces, the air force, the navy, anti-aircraft defence, home front organisations, and the provision of all kinds of Armed Forces and types of service.

The estimates of the Ministry of Defence provide for:

(1) payments for supplies to the army, air force and navy of armaments, ammunition and technical equipment, fuel and lubricants, and foodstuffs, clothing and other items needed for a state of military preparedness;

(2) financing the capital construction and industrial enterprises of the Ministry of Defence of the U.S.S.R.;

(3) other requirements for the military and political training and the administration and welfare provision of military units;

(4) provision of pay for servicemen in the Soviet Army.

The total annual expenditure on the Armed Forces of the U.S.S.R. is determined annually by the Soviet Government and approved, together with the rest of the State Budget of the U.S.S.R., by the Supreme Soviet of the U.S.S.R. Factors taken into account include: the international situation, the economic prospects of the country, the contemporary development of military science, the level of technical equipment of the army, air force and navy, the living standards of the personnel of the Soviet Army and Navy, the need to provide social and cultural services for servicemen, etc.

In the U.S.S.R. state resources allocated to the Armed Forces are strictly controlled at every stage. The financial service of the Armed Forces was established to fulfil this controlling function and to make sure that the army, air force and navy receive the finance they need.

A feature of defence expenditure in the U.S.S.R. and other countries of the world socialist system is that it does not lead to a budget deficit; many of the capitalist countries find themselves with chronic budget deficits mainly because of increases in their military expenditure.

The imperialist powers, with their reckless plans for an armed attack on the Soviet Union and other socialist countries, reject on various pretexts Soviet proposals for complete and

universal disarmament, and instead they intensify the strength of their armed forces and continue to increase their military budgets.

In the interests of strengthening national defence, the Soviet Union fixed the expenditure on the Armed Forces in 1964 at 13,300 million rubles. This allocation is in line with the objective set by the Twenty-Second Congress of the Communist Party "to keep up to scratch and fortify in every possible way the defence capacity of our country–the stronghold of peace throughout the whole world". The Soviet Government found it possible to propose a reduction of expenditure on the armed forces by 600 million rubles in the 1964 budget.

The apologists of imperialism try to prove that high military expenditure and militarisation of the economy are a means of overcoming crises, promote economic development of the country, increase the level of employment, reduce unemployment, etc. But in fact the more money is devoted to military production, the more unstable the economic structure of capitalism becomes; and the more acute become its own contradictions. One of the most important contradictions in the capitalist countries is that an important percentage of the national income is spent on armaments, so that men's labour is being increasingly used to create the means of destruction of material values and of people.

The most important contemporary problem is the problem of disarmament. The continuing arms race is one of the main factors which aggravate international tension. Whereas thirty years ago, in the period between the two world wars, world expenditure on military purposes was $4,200 million a year, it is nowadays $120,000 million, of which more than half is spent by the U.S.A. About 100 million people are directly or indirectly associated with military production and hence cut off from peaceful labour. There are more than 20 million men in the armed forces.

At the 14th and 15th sessions of the General Assembly of the United Nations the Soviet Government put forward a plan for complete and universal disarmament, with a new and particularly bold approach towards solving the problem of disarmament. The main idea of these proposals was that universal and complete disarmament is equal disarmament

for all states; it does not and cannot conceal any kind of advantage for any party.

The Leninist principle of peaceful coexistence as the guiding principle of Soviet foreign policy has its source in the nature of the Soviet state and social system. The conclusion of the Twenty-First Congress of the Communist Party of the Soviet Union, confirmed by the Twenty-Second Congress, that it was possible to exclude the threat of war from people's lives for ever in the near future is based on an objective and scientific analysis of the present stage of development of society. War has now ceased to be fatally inevitable.

PART SIX

STATE CREDIT AND STATE INSURANCE

Chapter 18

STATE CREDIT IN THE U.S.S.R.

Essence and Purpose of State Credit

State credit covers all credit relations in which the socialist state participates as debtor and the population as creditor.

State credit under socialism is a form of planned reallocation of the national income and is used in the interests of the people. The resources attracted into the budget through the state credit system originate from personal savings and other temporarily free personal resources. These borrowings are used for national purposes–for developing production and improving the standard of living. The Soviet Government also attracts the free monetary resources of collective farms and co-operative organisations in the same way.

State credit exists in two forms in the U.S.S.R.: as savings accounts and state loans. The economic significance of these two sources of funds for the State Budget is the same. The difference is only in the method of mobilising the funds and the procedure for repayment.

In all cases a socialist state guarantees repayment of the money reaching it through the state credit system by all its achievements and by the growing national income from year to year.

Though state credit is a comparatively small item in the total financial resources of the state, it plays an important part in planned distribution of the national income. By organising national savings, the credit system creates favourable conditions for planning monetary circulation and balancing the income and expenditure of the public.

Personal Savings; the State Savings Bank System

The economic basis of personal savings in the U.S.S.R. and other socialist countries is savings from earned income. By the system of savings banks the socialist state plans the reallocation of a certain proportion of personal income on credit terms. Usually working people do not spend their total income on current consumption. Some of their earnings are set aside for durable goods, holidays and other purposes. Lump sums which are sometimes received, may also be saved (long-service awards, production bonuses, payments for inventions, fees and so on).

Some permanent incomes are also temporarily free because they are not spent immediately upon receipt; for instance, the income of collective farmers. The savings banks may also hold balances which are only savings in a conditional sense, for instance, monies pending current expenditure.

In 1963 the savings banks which had hitherto been under the Ministry of Finance, were merged with the State Bank. Thereby more favourable conditions were created for their work (improvement of cash collection, greater security of transit and custody of monetary resources and so on). At the same time it was acknowledged that the functions of the savings banks needed to be widened–in particular, they should be more involved in the collection of personal payments due to the budget and of payments for municipal and other services, and there should be an expansion of cash facilities for industrial enterprises, organisations, governmental institutions and collective farms.

In each town and district central savings banks were set up to which all other savings banks were subordinated: the banks were divided according to the transactions performed by them and the status of the personnel into first grade banks, second grade banks, and agencies of savings banks.

The main objectives of national savings in the U.S.S.R. are: to concentrate the temporary free resources and savings of the public, to ensure conditions for safe and advantageous custody of monies, to attract in a planned manner the savings of individuals to meet the needs of extended socialist reproduction, to encourage people to increase savings, and to

convert these savings and temporarily free means of individuals into credit resources at the U.S.S.R. State Bank.

The development of savings is instrumental in making the best use of personal savings, increasing the financial resources of the state, strengthening monetary circulation, furthering credit relations and improving accounting in socialist society. From the savings of working people the state forms a certain proportion of the centralised fund of socialist society. Despite the fact that the savings banks receive deposits which are different in nature, purpose and duration, the state can use these funds for budget finance. Such a possibility is due to the fact that a stable, continually increasing balance of personal deposits is created in the savings banks; the rise in material welfare of working people increases national savings, so that on balance new deposits in savings banks exceed withdrawals.

To maintain the ruble as a sound medium of exchange it is necessary to balance personal incomes (purchasing power) against personal expenditure. Here one factor is the outgoings from the financial system to the public (fixed interest on deposits, advances for private house building, insurance claims, etc.) and the incomings from the public to the financial system (taxes and loans, organised saving and so on).

The development of national savings makes it possible to meet the requirements of monetary circulation with less actual cash. In this connection clearing accounts are significant: transfers of wages to savings accounts, or of the salaries of scientific workers and other categories of the population. Many personal payments to state enterprises are made by book entries (rents, payment for municipal services, telephone and radio). Cash deposits in the savings banks are transferred to the State Bank, or are kept for current withdrawals. The net result of these cash transactions by the savings banks is reflected in the cash plan of the State Bank.

In the Soviet Union and other socialist countries the savings banks are part of the state administration, and have the function of assisting in the growth of social wealth and increasing the well-being of the masses of the people. In capitalist countries, however, they are in the hands of banking monopolies and are a means of exploiting working people. The objective of savings banks under capitalism is to place

at the disposal of banking monopolies the medium, small and very small savings of individuals; having converted them into capital, these monopolies can use them for obtaining maximum profits.

Speaking of the purpose of savings banks in tsarist Russia, Lenin wrote: "In Russia this capital serves primarily to strengthen the might of the militarist and bourgeois-police state. The tsarist government ... disposes of this capital just as arbitrarily as it does of all other public property it lays hands on."* This characterisation brings out the class content of savings under capitalism.

The savings which can be accumulated by the savings banks under capitalism, differ fundamentally in their nature from the people's savings attracted by the saving system of socialist countries. The bulk of the deposits in capitalist savings banks belongs to the small and middle bourgeoisie, to the clergy, officials and bourgeois intelligentsia. The workers' share of the total deposits is insignificant. From American statistics, almost 75 per cent of all deposits in savings banks in the U.S.A. belong to the 10 per cent of depositors from wealthy families. The working people of capitalist countries are compelled to set aside their pennies from their meagre wages for the "rainy day" of unemployment, sickness and old age. Their forced savings are essentially a peculiar form of "self-insurance". In Marx's metaphor, under capitalism, "savings are a golden chain on which the government holds a large part of the working class".**

Transactions of State Savings Banks

Savings in the U.S.S.R. are organised by the state through the system of state savings banks which are a single all-Union credit institution. The savings banks are part of the socialist state financial apparatus, they operate on the principles of cost accounting and have the rights of a juridical person. They were created by decision of the Council of People's Commissars in December 1922.

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* Lenin, *Collected Works*, Vol. 6, p. 92.

** Marx and Engels, *Werke*, Bd. 6, Berlin 1959, S. 545.

The savings banks perform the following functions associated with the organisation of personal savings in the towns and countryside and other banking facilities: deposits, taking in and making various payments, state loan transactions.

Deposit transactions are the main activity of savings banks. There are different kinds of deposits: deposits payable on demand, fixed deposits, contingency deposits, lottery deposits and current accounts.

Deposits payable on demand are the most common. The depositors can withdraw their deposit entirely or in part at any time. The interest payment on these deposits is two per cent per annum. Deposit accounts repayable on demand, unlike the other forms, may be opened in the name of a definite person or to bearer.

Fixed deposits are made for a period not less than six months. This is the most advantageous kind of deposit. Since fixed deposits ensure greater stability of the balances in savings banks, they bear a higher rate of interest–three per cent per annum. The depositor retains the right to withdraw the money at any time. But if the withdrawal is made before six months have elapsed, the deposit becomes a deposit payable on demand and it bears two per cent per annum.

Contingency deposits for particular purposes are governed by specified conditions at the discretion of the depositor. For instance, parents may open deposit accounts in the name of their children, stipulating that the money can only be paid after schooling or university education, or when their children become of age.

Lottery deposits have the special feature that interest is paid out in the form of prizes, the drawings for which are carried out twice each year. For every thousand lottery deposits 25 prize-winners receive awards amounting to 200, 100 per cent and so on of their average balance. Only winning depositors receive an interest.

Current accounts, opened by savings banks at the request of depositors, are economically no different from savings account deposits payable on demand, but the savings account depositor himself, or someone nominated by him, must make any withdrawal in person, whereas a current account holder can operate the account by means of cheques; the savings banks pay corresponding sums to the person in whose name

the cheque is drawn, or if a bearer cheque, to the person presenting the cheque.

This variety of accounts is a convenience for depositors and it gives flexibility to the deposit transactions, providing more facilities for savings bank depositors.

The U.S.S.R. by law guarantees the secrecy of deposits and unconditional safety and repayment of sums deposited in savings banks. The deposits and interest payments are free of tax. Depositors, free to dispose of their deposits, have the right to bequeath them to any person regardless of relatives' claims as successors, or to authorise another person to operate the account by completing the necessary formalities.

The savings banks perform a number of *banking transactions* on behalf of the state and public organisations. Such transactions include the collection of tax payments and state insurance payments, taking in membership fees from primary organisations of Communist Party, trade union and Young Communist League, the payment of special (personal) pensions and pensions to scientists, and the payment of state allowances to mothers with large families and single mothers.

The savings banks hold the current accounts of trade union branches and other voluntary organisations (for instance, mutual assistance funds), of village Soviets and organisations coming under the village budget, and of collective farms. In some cases, if no branch of the State Bank is available, the local savings bank can open current accounts for management committees of blocks of flats. The range of organisations which may have current accounts in the savings banks is decided by the Government and by orders of the U.S.S.R. Ministry of Finance.

The deposit facilities include transfers of deposits from one savings bank to another, transfers from wages and fees, and payment of bills for depositors (for rent, electricity, water, gas, telephone, radio and so on). In addition, to help the public, the savings banks issue letters of credit to order. *Letters of credit* are documents, payable to order, enabling the holder to withdraw amounts up to the value of his deposit from any savings bank of the U.S.S.R. upon presentation.

Besides deposit transactions, the savings banks sell and purchase state loan bonds, pay out lottery winnings and hold loan bonds for safe keeping.

The steady rise of the national income is increasing personal incomes, which in turn is increasing the personal deposits in the savings banks. During 1959-60 the net increase in savings banks deposits in the U.S.S.R. was 2,200 million rubles, the total deposits at the end of 1962 reached 12,700 million rubles, as compared with 1,800 million rubles at the end of 1950; compared with the pre-war balance in 1940, the average balance of deposits from individuals has increased more than 16 times.

The total number of accounts in the U.S.S.R. at the beginning of 1963 was over 53.5 million.

The money attracted by the savings system in the form of monetary deposits, except for the cash reserve of the individual savings banks and their balances in the State Bank (three per cent of average deposit balances), are loaned to the state.

The savings banks carry on their activity on the basis of a financial plan covering their income and expenditure.

The main sources of income of the savings banks are: interest on average balances placed in state loans, interest on their current accounts in the State Bank, sums received from the State Budget to defray expenditure associated with state loan transactions, and sundry bank charges (payments for banking services, the issue of letters of credit and so on).

This income is transferred to the Administration of State Savings Banks and State Credit in a centralised manner.

The expenditure of savings banks consists of payments of interest on deposits, and administrative and operating expenses.

The interest paid depends on the amount deposited, and is worked out in the light of the plan for attracting personal savings.

The difference between income and expenditure forms the profit of the savings banks; 50 per cent of this surplus is transmitted to the Union budget, and 50 per cent is set aside as a reserve for meeting possible losses. After the reserve fund has reached a certain maximum, equal to 5 per cent of the deposit balances, all the profit is transmitted as revenue of the Union budget.

The procedure followed in forming and utilising the resources of savings banks is designed to induce the banks to obtain more savings.

The plan for mobilising and employing the free monetary resources of the public, and also the total income and expenditure and their breakdown item by item, are laid down in the aggregate plan of the state savings banks. The draft of the aggregate plan is made by the Directorate of State Savings Banks and State Credit on the basis of plans and returns concerning personal savings in the previous period, and of an estimate of the prospects for greater savings which is in turn based on the balance sheet of personal income and expenditure in the planned period.

These calculations are important for planning monetary circulation. The quarterly plans of the savings banks serve as a basis for drawing up the cash plan of the State Bank as a whole and territorially and, above all, the balance sheet of monetary incomes and expenditures of the population.

State Loans

State loans are one of the sources of socialist accumulation in the U.S.S.R. They are a supplementary source for financing the economy.

State internal loans are a way of attracting into the State Budget temporarily free personal resources which have to be returned. The loans floated by socialist states express the new economic relationships and serve the interests of the people.

In capitalist countries state loans are mainly placed amongst private banks, insurance societies, joint-stock companies, savings banks and individual enterprises. The loans are one form of movement of loan capital. Since new taxes and heavier income tax are meeting with growing resistance from the masses of the people, bourgeois governments are resorting to different forms of concealed increased taxation on working people. One of these forms is state borrowing.

"The loans," wrote Marx, "enable the government to meet extraordinary expenses, without the taxpayers feeling it immediately, but they necessitate, as a consequence, increased taxes. On the other hand, the rising of taxation caused by the accumulation of debts contracted one after another, compels the government always to have recourse to new loans for new extraordinary expenses."*

* Karl Marx, *Capital*, Vol. I, p. 756.

The liabilities of a socialist state to its creditors take the form of bonds or special entries (obligation-free loans) which record the indebtedness of the state. The resources attracted by loans come into the State Budget.

It is necessary to distinguish: state loans which are sold to the public, and state loans which are subscribed for amongst socialist enterprises and organisations. The differences are due to the economic nature of the resources attracted by the loans. By public loans resources of working people are mobilised. The other type of loans comes from the idle monies of socialist enterprises and organisations. Such loans may be subscribed to only out of funds which are more or less long-term monetary reserves, such as the funds of insurance organisations which set aside reserves for meeting insurance claims if current receipts are insufficient.

The monies of savings banks placed in state loans are slightly different in nature. Since these funds are formed mainly from the deposit balances, the state's actual creditors are the depositors at the savings banks, and the savings bank is only an intermediary between the state and the public. With the growing standard of living the deposit balances of personal deposits in the savings banks increase, and so it is possible to place more money from the deposit balances in state loans every year.

In accordance with Article 14 of the Constitution of the U.S.S.R. state loans are floated only by decision of the Council of Ministers of the U.S.S.R.

The industrialisation of the country and collectivisation of agriculture required widespread use of loans for special purposes. Prior to the Second World War the Soviet public had already made loans to the state totalling about 5,000 million rubles. During the Second World War loans realised over 7,600 million rubles, which provided 13 per cent of all expenditure on national defence. During the Fourth Five-Year Plan the loans yielded almost 11,700 million rubles, and the Fifth Five-Year Plan yielded 13,600 million rubles.

In 1956 a state loan of 3,300 million rubles was launched for the development of the economy. In 1957 a five-year loan was launched only for 1,200 million rubles, i.e., only about one-third as much as in 1956. From 1958 to 1962, annual lotteries were held for the 1957 loan, and from 1959 to 1962, drawings of bonds for repayment.

The continual floating of loans led to the fact that the net income from the loans decreased from year to year. In these conditions it was no longer advisable to raise further loans

from the public. Continuation of public subscription loans would have meant that in 1967 2,500 million rubles would have to have been paid out, i.e., almost as much as expected income from subscriptions to loans. If the state were to start to float loans on a larger scale than, for instance, in 1956, it would be onerous on the public. In this connection the Central Committee of the C.P.S.U. and the Soviet Government decided to discontinue, from 1958 onwards, further floating of loans for public subscription, and to defer by 20 years the redemption of obligations on loans which had been floated previously.

Whereas prior to 1957 publicly subscribed state loans played the main part in the system of state credit, from 1958 onwards, after discontinuing the floating of state loans for public subscription, the main way of attracting personal savings was through deposits in the savings banks.

At the same time it became possible to raise an increased amount from the public for the freely circulating three per cent inland loan.

A three per cent state lottery loan was launched in 1947 maturing in 20 years and in bonds of 20 and 10 rubles. As regards this loan, two kinds of prize-drawings are carried out: basic and supplementary. The basic drawings (six drawings per year) included all bonds regardless of the period of time for which they have been held, but in the supplementary drawing (once per year)—the bonds had to have been held for not less than 9 months prior to the drawing. This system, and the fact that the bonds could be freely sold and purchased at savings banks, encouraged long-term lending by the public.

One of the forms of mobilising public savings is lotteries with money and goods as prizes. In pre-war years they were arranged by various voluntary societies, e.g., Osoaviakhim (Society for Air and Chemical Defence), the Red Cross and Red Crescent Society. In the Second World War four lotteries were launched with money and goods as prizes. A successful money-prize lottery was the All-Union Festival of Youth Lottery (1957). From 1958 lotteries with money and goods as prizes were widely developed in the Union republics. Forty per cent of the proceeds were paid out as prizes. Money-prize lotteries are very popular amongst the public of the U.S.S.R.

State credit is directly linked with the *state debt*, the state's indebtedness on loans. The state debt on loans is made up of the total non-redeemed bonds and other liabilities to bondholders. With the state debt one must distinguish the liability to individuals and the liability to economic organisations.

Depending on the maturity date the state debt is divided into the permanent debt and the current debt. The *permanent debt* is the total liability of the state in respect of debts which are not yet due and which will not become due for payment in the period in question (for instance, during the budget year). This covers the bulk of the state loan debt to individuals. The liability of the state to economic organisations may be dated (for collective farms and co-operatives), or undated (for savings banks and insurance organisations). The *current debt* is the liability of the state in respect of liabilities which have become due.

The Soviet Union, interested in the development of international economic co-operation, offers loans to other countries. Equality of rights and mutual interest of the parties are deemed to be necessary conditions of such co-operation. The U.S.S.R. maintains all-round co-operation, including financial and credit relations with all countries of the world socialist economic system. These relations are based on the just principles of mutual aid and mutual interest.

In capitalist countries foreign loans are used for economic and political enslavement of the borrowing country. Foreign loans offered within the world socialist economic system represent new foreign economic relations—relations of socialist mutual aid and international fraternity—and thus serve the purposes of achieving general economic progress. Soviet loans and credits have played an important part in the economic development of the People's Democracies. With the aid of the U.S.S.R. about 500 industrial enterprises have been built in socialist countries.

The Soviet Union offers loans and credits not only to the People's Democracies, but also to a number of non-socialist countries, especially states which have recently been released from colonial dependence. Foreign loans and credits of the U.S.S.R. have nothing in common with the export of capital. Loans and credits of the U.S.S.R. and of other socialist countries, by virtue of the very nature of a

socialist economy, cannot pursue the purposes of economic and political expansion, exploitation and enslavement of the borrowing countries. The foreign credit relations of socialist countries reflect socialist production relations, directed towards the development of the world socialist economy, as a single economic complex, on the basis of co-operation on broad lines and rational international division of labour.

The Soviet Union in its foreign economic relations consistently carries out the policy of peaceful coexistence, being guided in this by the behest of Lenin that the leading nationalities who have thrown off the yoke of imperialism, must help the economically developing countries in their transition to democracy and socialism on the basis of their own economic development and state independence.

Chapter 19

STATE INSURANCE IN THE U.S.S.R.

Insurance and the Insurance Fund

In the process of material production man acts upon nature, conducts a constant struggle against natural forces, gets to know the laws of nature and subordinates them to the interests of the development of the productive forces. The effectiveness of man's struggle with natural forces depends on the level of development of the productive forces, and also on the level of development of science and technology.

There are two ways of dealing with natural disasters. One way is to prevent them in advance, the other is to curb them when they occur and stop them from spreading. The preventive measures include the construction of irrigation systems, dams, reservoirs, afforestation against soil erosion, use of non-inflammable materials, and strict observance of fire-prevention and agrotechnical regulations. The measures to curb disasters include fire-fighting, veterinary services for sick animals and so on. The two types of measures in practice are often carried out simultaneously. In the U.S.S.R. most

emphasis is laid on measures directed at preventing natural disasters.

To compensate for losses from the destructive phenomena of nature and accidents, a certain part of the aggregate social product is set aside called the *insurance fund.* It is a necessary element of social reproduction. That it must be set up in a socialist economy is theoretically substantiated in the works of Marx and is confirmed by the practice of socialist construction in the U.S.S.R. and in the People's Democracies.

Marx pointed out that an insurance fund, along with accumulation for expanding production, must be maintained even after eliminating capitalist production, i.e., in the conditions of a socialist economy. Referring to the distribution of the aggregate social product under socialism, Marx sets aside from it, in particular, a "reserve or insurance funds to provide against accidents, dislocations caused by natural calamities, etc."*

The insurance fund in the U.S.S.R. is socialist property; it is used to ensure the uninterrupted process of extended socialist reproduction and to safeguard the personal interests of working people. Large financial reserves are one of the indispensable conditions for the planned balanced development of the socialist economy.

There are three main forms of organisation of the insurance fund. First, there is *self-insurance.* Reserves are set aside to meet natural disasters at each enterprise and farm independently, i.e., the fund is decentralised. Losses at an organisation due to a natural disaster are covered by this fund to the extent that resources allow. This form of insurance does not mean compensation for losses, since the economic organisation's resources are not increased, but only transferred.

The second form of insurance fund is *centralised*: the fund is drawn directly from the resources of the state for the economic organisation affected.

The third form is *insurance,* where the fund is provided by contributions to special insurance organisations from juridical and physical persons. These funds do not remain in the economic organisations; neither are they appropriations

* Marx, Engels, *Selected Works,* Vol. II, p. 20.

from the resources of the state. This form of insurance is connected with the existence, along with state property, of co-operative and collective-farm property and of personal property. Since property of the whole people is dominant in the socialist economy, the amounts available as insurance in the form of state stocks and monetary reserves are much greater than the funds formed by insurance. Therefore objects of state property which have been hit by natural disasters are best restored directly from reserves provided for in the U.S.S.R. State Budget.

For compensation of damage, caused by the destructive forces of nature or accidents to the property of co-operatives and collective farms and to personal property, a *special fund* has also been set up as part of the national economic reserves. This fund is formed by the system of state insurance and it is part of the insurance fund.

Insurance in the U.S.S.R. is carried out in money because of the existence of commodity-money relations.

Insurance performs an important function in safeguarding collective-farm property from destructive natural forces and accidents. The state insurance system finances measures to prevent and combat fire or cattle diseases, and to prevent the ruin and damage of agricultural crops. For this a large preventive fund is replenished annually by deducting 8-10 per cent of all state insurance premiums in respect of compulsory comprehensive insurance and all forms of voluntary property insurance.

Some of the insurance reserves can be used as a source of credit. Between the time that insurance payments are made and the time when compensation has to be paid out a certain period elapses. So long as the reserves are not required for payment of insurance claims, the state employs them for short-term credit.

The system of state insurance in the U.S.S.R. has large reserves at its disposal. Until required these are held on special accounts in the U.S.S.R. State Bank. Much of the money is transferred as revenue into the budgets of territories, regions and Autonomous republics to finance measures against fire, cattle diseases and premature loss of agricultural crops. Some of the savings accumulating from insurance transactions are transmitted directly into the state budgets of Union republics.

In the U.S.S.R. insurance is a state monopoly. The consolidation in the hands of the state of all insurance business makes it possible to conduct insurance with lower expenses, whilst at the same time providing concessions to particular categories of economic organisations; financial stability is ensured and compensation for losses is guaranteed.

Fundamental Concepts of State Insurance

Depending upon the purpose of insurance–replacement of physical losses of property, or lump sum payments in case of stated events in the life of persons–*property* insurance is distinguished from *personal* insurance.

Insurance may also be *compulsory* or *voluntary*. Compulsory insurance arises under the law, whilst voluntary insurance is based on agreement (contract) between insurer and insured. The compulsory principle applies equally to both. The voluntary principle, in conditions of a state monopoly of insurance, applies only to the insured, who has a right to insure or not to insure his property and life. Insurance organisations cannot refuse voluntary insurance complying with the requirements of law and insurance regulations.

The types of compulsory property insurance have certain characteristic differences from voluntary insurance.

Compulsory insurance is always comprehensive. It has to be taken out by all collective farms, and also by persons having property which is liable to compulsory insurance. Every item of such property has to be insured (for instance in the smallholding of an individual farmer–all buildings, and all cattle, horses, sheep, goats and pigs after a certain age).

The scale of insurance is laid down by law at certain rates. The insurer cannot assign the insured sum. The amounts for definite categories of similar objects may be expressed in rubles: for instance, in the collective farms of a given locality, each head of non-pedigree cattle over one year old might be insured for 80 rubles, one hectare of winter wheat for 40 rubles and so on. Such norms are said to be *absolute.*

There are also other standard values for insurance, where the insured sum depends on the cost of the object. For

instance, the standard insurance of buildings in collective farms is 100 per cent of the value of the building, whilst the produce, raw material and stores are insured for 80 per cent of their value. Norms which are expressed as a certain percentage of value for particular categories of homogeneous objects are said to be *relative.*

Compulsory insurance is undated and never expires. Every working person is deemed to be an insured as long as a home, cow or any other object of compulsory insurance belongs to him. The responsibility of insurance organisations is not limited to a definite period, for instance, one calendar year, and it does not lapse in relation to any object so long as it is on the farm.

The responsibility in respect of compulsory insurance arises automatically. The insurance of each object does not depend upon the fulfilment by the insured of any formal requirements. The presence of an object liable to compulsory insurance is sufficient for it to be deemed to be insured. Consequently, all property which is legally liable to insurance is insured.

The responsibility of the insurer does not depend upon the fulfilment by the insured of his obligations to make the insurance payments (premiums). Owing to temporary economic difficulties, or disorganisation of the machinery which collects the insurance premiums, some farms may fail to pay the amounts due within the prescribed periods and are deemed to be in arrears. But the insurance of their property does not lapse, and the insurance organisation continues to bear the responsibility in the usual way.

In voluntary insurance the insured sum, as a rule, is determined in relation to the value of the object in question. When an insurance policy is taken out each object is usually valued and the insured sum is determined in accordance with this valuation.

In insurance the parties are the insurer and the insured. The *insurer*'s liability in property insurance is to compensate losses borne by the insured when an event (contingency) happens which is envisaged in the terms of the insurance policy, and in personal insurance his liability is to pay out the insured sum, or part of it, when a certain event happens regarding the life of the insured person (death, attainment of age and so on).

The *insured* (in property insurance) is the physical or juridical person who, to protect his property interest, enters into legal relations by law or contract, with the insurer. In concluding a policy of personal insurance no proof of the presence of a property interest is required. The insured may be any person if, according to the terms of the policy, that person can be insured.

In personal insurance policies, besides the insurer and insured, two other persons may be involved, namely, the person whose life is insured and the beneficiary. The *insured life* is the person in respect of whose life the contingency may happen which involves payment of the insured sum by the insurer. Soviet state insurance regulations require that the insured and the insured life be one and the same person. However, some enterprises and institutions have the right to insure on their own account certain groups of workers and office employees. Under this condition the insured is the enterprise or institution, and the insured lives are the workers and office employees. The *beneficiary* is the person stipulated to receive the insured sum in the event of the death of the insured life in the period covered by the insurance policy.

An important concept in insurance is the insurance risk. The *insurance risk* is the contingency, or set of contingencies, for which the insurer becomes liable to discharge his principal obligation–to pay out the insurance compensation (property insurance) or insured sum (personal insurance). The risk in property insurance is the possibility of total loss or damage of the insured property from fire, flood, hail, drought and other natural disasters coming within the responsibility of the insurer. In personal insurance possible contingencies are, for instance, permanent disability due to accident, or death.

The term insurance risk also implies the probability of the contingency envisaged in the insurance. The study of the probability of contingencies is of exceptional importance for insurance organisations since it constitutes the financial basis of insurance operations, as expressed in the scientific determination of premiums (insurance rates).

The value of an object (building, animal, harvest, etc.), as decided for the purposes of insurance, is called the *insurance valuation.* With insurance of buildings, machines and equipment the valuation depends in some cases on the replacement cost, in other on the actual cost of the object. The replace-

ment value is determined from the current prices for building materials and the wage rates of builders without regard to any decline in the value of the property as a result of wear and tear. The actual value of an object takes into account the reduction of value due to wear and tear. Legislation and insurance regulations determine in what cases insurance is based on the replacement cost, and when it is based on the actual value.

The amount covered, i.e., the *insured sum,* up to which the insurer is liable if the contingency insured against arises is calculated on the basis of the valuation. The maximum insured sum is the value of the object, or in some cases only a part of it (for example, 80 per cent of the value). The insured sum in personal insurance is unrestricted; it is agreed when the policy is issued.

In carrying on insurance, the insurer undertakes financial obligations, while the insured makes definite payments to the insurer (*premiums*). The premiums received by the insurer enable him to discharge his obligations to the insured, to cover expenditure in respect of insurance operations and to create the necessary reserves. The scale of premiums in respect of each insurance depends on two quantities, namely, the size of the insured sum and the insurance rate. The *insurance rate* is the insurance payment per unit of the insured sum for the annual period of insurance. In property and personal insurance this unit is 100 rubles.

The insurance policy stipulates the period during which the insurer bears responsibility. Property insurance, as a rule, is concluded for one year (in some cases for a shorter period). On the other hand, a life insurance policy is usually for a longer period (5, 10, 15 years or more). The insurance policy states not only the day, but also the hour at which the cover becomes operative and expires.

Two systems of insurance are used which have a different effect on the level of the compensation, and which therefore effect the relation between the scale of compensation and the loss sustained by the insured.

The most common system operates on the principle of *proportional responsibility.* According to this system the compensation bears the same relation to loss as the insured sum bears to the valuation of the object. Thus, the compensation depends not only on the amount of loss, but also on the

relation between the insured sum and the valuation of the property. The closer this relation is to unity, the closer is the compensation to the amount of the loss incurred. The compensation is only equal to the loss if the property is insured at its full value.

Sometimes use is made of the principle of *first risk.* Here the compensation is equal to the loss, but it cannot exceed the insured sum. This means that within the limits of the insured sum the loss is compensated completely. The insurer is liable to the insured for the full value, within the limits of the insured sum, of any part of the property which is first affected by the contingency insured against. That part of the loss which exceeds the insured sum is not compensated by the insurer. This *second risk* is borne entirely by the insured.

Economic Principles of Property Insurance Tariffs

The insurance premiums are laid down at fixed rates per unit of the insured sum.

The rates are in two parts: the *net premium* for creating the funds to meet claims, and the *load* (surcharge) for covering the expenses of the insurer, creating reserves, and making grants for the prevention of fires, cattle plague and so on. The rate which combines the net premium and the load, is called the *gross rate,* or simply the tariff rate.

The probability of loss or damage of property is not the same in respect of all the possible contingencies. Accordingly different tariff rates apply to different types of property.

Despite the many categories of insurable objects, the basic rate (the net premium) is calculated by applying a single percentage relation between the sum assured and the insured sum (i.e., an index representing the compensation as a percentage of the insured sum) for all the insured objects in any particular category. This percentage is the *commitment* in respect of the insured sum (insurance ruble).

The net premiums payable by the insured must be equivalent to the insurer's financial liability to the insured since insurance, whether obligatory or voluntary, is an economic transaction involving repayment. Therefore it is necessary, as far as possible, to calculate the scale of the expected claims

during a certain period accurately. There is then no difficulty in calculating the scale of the compensation per unit of insured sum of insured property in any group or category. This in fact constitutes the rate of net premium.

The compensation per 100 rubles of the insured sum is thus the insurer's commitment. Consequently the commitment and the tariff rate are determined by a common measure. In fact the basic rate is the payment to be contributed by the insured per 100 rubles of insurance; the commitment, however, is the average amount in kopeks per 100 rubles of insured sum of the insured objects in a given category to be repaid to the claimant in the form of insurance compensation for losses. Therefore data concerning the commitments can serve as the basis for calculating the net tariff rates.

The premiums paid in refer to the coming period (year) of the insurer's responsibility since the contract is concluded for the future. Therefore a forecast is made of the degree of danger of loss or damage to property due to natural disasters for which the insurer is liable. Determination of the net tariff thus entails determining the most probable commitment for each category of objects.

Voluntary insurance requires, as far as possible, full correspondence of the tariff rates to the probability of loss or damage due to the various contingencies. For this the rates are greatly differentiated. If there is only a small difference in rates, and particularly if there is a single average tariff, there may be an advantage in insuring objects for which the danger of loss or damage is most probable, and there may be no interest in the insurance of objects which are least threatened by such a danger. A single average rate, or an inadequately differentiated tariff, would only create conditions for insurance of the most dangerous risks. In this case the financial results of insurance would be negative for the insurer.

Single rates are inadvisable for compulsory insurance as well. However this form of insurance, owing to the compulsion, does not require such widely differentiated tariffs as voluntary insurance. Compulsory insurance is differentiated as regards the rates paid by different social groups of insured. The basis for this, above all, is statistical data in respect of the percentage commitment on the property of the various groups of insured. For all objects and territorial

zones, reduced rates are fixed for collective farms compared with the private plots of the collective farmers; the latter, in turn, have advantages in this respect over the holdings of individual farmers. This tariff policy assists in building up the collective farms.

To calculate the gross rate (final rate), a surcharge is added, as we have seen, to the net tariff rate. For individual types of insurance, this consists of different elements. Common to all types of insurance is the surcharge to cover the administrative expenditure of insurance organisations (personnel, transport facilities, printing, staff training). In most types of insurance the surcharge includes a part intended for creating the reserves necessary in the event of greater commitments in the coming years. For grants in aid of fire-prevention, fire-fighting, cattle diseases and loss of agricultural crops, 8-10 per cent is deducted from the total payments under compulsory comprehensive and all types of voluntary property insurance; this also is included in the surcharge. In addition to general administrative expenses, the surcharge also includes the percentage commission paid by insurance organisations to agents, and the bonuses payable to the personnel of the insurance agencies.

Compulsory Comprehensive Insurance

Under this type of property insurance policies are taken out by collective farms and private individuals–collective farmers, workers, office workers, and also individual peasants, handicraft workers, etc.

In collective farms the list of objects for compulsory insurance includes almost all property. It is divided into four groups. The first group includes buildings, implements, equipment, transport facilities, produce, raw materials and other supplies. Exceptions are tractors, prime movers, agricultural machines and attachments, motor vehicles and other mechanised means of transport belonging to the collective farms. They are not liable to compulsory insurance, but they may be insured voluntarily. The second group of objects relates to agricultural crops, sown acreage, horticultural nurseries, orchard produce, gardens and vineyards. Not only sown crops, but also those in nurseries, cold frames and hot-

houses are liable to insurance. The third group includes livestock: horses (up to 18 years old), camels, asses, mules, deer, cattle, sheep, goats and pigs. All animals of these kinds are considered to be insured on attaining a certain (insurance) age. The fourth group of insurance applies to fishing boats.

For the holdings of private individuals the list of property liable to compulsory insurance is much shorter. Buildings, cattle, horses, camels, asses, mules, sheep, goats and pigs belonging to the individual must be insured.

Buildings in collective farms, and also implements, equipment, transport facilities (except mechanised), produce, raw material and other supplies are insured against fire, lightning, explosion, flood, earthquake, storms, hurricanes, cloud-bursts, hail, avalanches and landslide. State insurance bodies compensate losses not only in the event of loss or damage to buildings from natural disasters, but also if the erection was demolished or removed for stopping the spread of fire or through a sudden threat of flood.

Crops are accepted for insurance under two forms of responsibility: for damage done by hail, cloud-bursts, storm and fire when in the standing (uncut) condition; and for damage by saturation or frost, rotting and flooding; sowings of cotton, sesame, castor (oil) plants, geraniums, belladonna, latex-bearing plants, tobacco, makhorka (coarse tobacco), and some other industrial crops are also insured against drought.

Livestock is insured against cattle plague, sickness and accident (fire, flood, lightning). Losses are also indemnified in the event of forced killing (slaughter) of livestock if carried out in conjunction with measures to combat epizootics: incurable sickness of animals, excluding the possibility of their further use, and accidents involving unavoidable loss of animals are also covered.

Fishing boats are insured against loss or damage resulting from fire, lightning, snowstorms, hurricanes, whirlwinds, gales, explosion of engines or steam boilers, and running aground during blizzards, hurricanes, whirlwinds, storm or fog.

By virtue of the principle of automatic liability any kind of property subject to compulsory comprehensive insurance is deemed to be insured from the day it comes into the farm. As regards new collective-farm buildings, the liability of insurance bodies arises as from the date when building starts.

Liability in respect of insurance of animals in all holdings begins from the time the animals reach a certain insurance age, and ceases at the time of their leaving the holding (sale, etc). Liability for agricultural crops starts at different stages for different crops. Thus, for seed crops, including grain crops—winter sown crops and spring sown crops (cereals), and potatoes, the liability begins with the emergence of the shoots and not from the time when they are sown; it ceases when the harvest is gathered. However, if the crop is damaged by autumn frosts occurring at the usual time for the particular locality, losses are not compensated. This procedure encourages timely harvesting.

The system of automatic liability is a great convenience for the insured; with this system there is no need to inform the insurance organisations when new objects are acquired and to make additional payments to insure these.

Buildings, implements, equipment, transport facilities (except mechanised) and fishing boats belonging to collective farms are insured at full value. The insurance bodies use the inventory estimates of the collective farms themselves. The insurance of produce, raw material and other supplies is at 80 per cent of their full value (determined also by their inventory estimates).

Buildings belonging to individuals as personal property are insured at the value laid down for compulsory comprehensive insurance: in rural localities—on the basis of valuation by the insurance bodies, in urban localities on the basis of valuation by municipal authorities.

As regards insurance of agricultural crops, the insurance is fixed at absolute (firm) rates per hectare. These rates in respect of each crop are determined for Autonomous Soviet Socialist Republics, territories, regions and districts on the basis of 40 per cent of the average value of the crop during the previous three years and the current state purchasing prices in the particular locality. Within a district uniform insurance rates apply to all collective farms independently of the actual size of the harvest at any one collective farm.

The rates in respect of insurance of animals differ according to the type of animal. These rates are fixed in rubles per animal on the basis of 40 per cent of their average value. The full rates are charged only in respect of fully-grown animals. The young of horses, camels, mules, and deer as

from the age of one year (but collective-farm pedigree horses and camels from six months onwards) are insured at half rates up to two years; calves from six months to one year, since at these ages the animals are not yet at full value.

Insurance assists the development of pedigree livestock in collective farms; their pedigree horses and camels from two to 18 years, and also pedigree cattle, sheep, goats and pigs over one year, are not insured on a fixed basis per head, but on the basis of 80 per cent of their full value, as determined by the insurance authorities. Moreover, pedigree animals in collective farms are insured at reduced rates.

For better precautions against fire, and the erection of structures with fire-resistant roofs (tile, slate, iron, etc), collective farms receive preferential terms; a discount up to 50 per cent is allowed on insurance of all property (buildings, implements, equipment and transport facilities, produce, raw material and other supplies) against fire and other natural disasters. The amount of their discount is fixed by the Executive Committees of the district Soviets, depending on the extent of fire-precaution measures and fire-resistant construction. The Executive Committees of district and town Soviets have the right, on the recommendation of the insurance authorities, to relieve the holdings of individuals from insurance payments partially or completely.

For compulsory comprehensive insurance an annual registration of objects covered is carried out. After registering the property, insurance inspectors calculate the payment to be made in respect of each kind of registered property. The total amount, after allowing for discounts, is payable in instalments, as decided by the Council of Ministers of the Union republics. Collective farms make their payments in three instalments (the last not later than November 1, each year), and the public in one or two instalments (not later than October 1). After the premiums are calculated each insured person is handed a certificate of insurance.

Types of Voluntary Property Insurance

THE INSURANCE OF PROPERTY OF PUBLIC AND CO-OPERATIVE ORGANISATIONS. The property of co-operative bodies (except collective farms) and public organisations may be insured in voluntary form. According to the insurance

policy all the property belonging to the insured is deemed to be insured: buildings, plant, means of transport, machines, equipment, stocks and stores. Some objects, for instance, agricultural crops, animals, sea-going vessels, silopits, dams, forests, fishing gear in reservoirs, documents, drawings, money, securities, are not accepted for insurance.

Property can be insured at its full value, or at a proportion of its value, but at not less than 50 per cent. With insurance at full value the principal objects are valued at original cost. Insurance of principal objects at full value independently of the extent of depreciation creates exceptionally favourable conditions for early restoration of interrupted production processes or other economic activity.

Stocks of outside supplies at a particular organisation are insured at actual production cost, but for no more than their value at state retail prices; stocks of finished goods produced in the factory (except agricultural produce) are insured at actual production cost, but at no more than their planned value. Agricultural produce is deemed to be insured at actual production cost, though not at a higher figure than state purchasing prices.

Means of transport are also insured for loss or damage as a result of accidents. Compensation is also paid for property which has come to the insured person after the contract is completed. The insured person is also compensated for expenses expediently incurred in saving property in a natural disaster.

The policy is concluded for a period of one year. The premiums are calculated at rates applying to consumer cooperation, co-operatives and voluntary organisations. The rates are not differentiated according to territory.

Organisations which have insured their own property can negotiate a supplementary property insurance policy covering property received by them, but belonging to other organisations and private persons.

INSURANCE OF HOME PROPERTY. Home property and means of transport in personal ownership are insured voluntarily. The insured persons may also be organisations responsible for goods received from the public as security (pledge), for sale, repair, custody, etc: pawn-shops, commission shops, transport organisations, laundries, hotels, repair workshops and tailors.

State insurance bodies treat damage or loss of home property from natural disasters on the same basis as the other types of insurance. They also compensate for loss or damage to property in saving it during a natural disaster (for instance, in the event of spoilage from water, breakage, etc). As regards insurance of transport facilities, loss or damage due to an accident is compensated if this is provided for by the policy.

INSURANCE OF AGRICULTURAL MACHINERY IN COLLECTIVE FARMS. Voluntary insurance is accepted for the agricultural machinery (tractors, motors, agricultural machines and attachments) belonging to collective farms, and also mechanised means of transport (automobiles, motorcycles, motor launches, etc.). This property, as we have pointed out, is not liable to compulsory insurance. Depending on the terms of the voluntary insurance, losses are compensated which are a consequence of fire, lightning, floods, earthquake, storm, hurricane, gales, cloud-bursts, landslide, avalanche, and also accidents. The scale of insurance is determined by the collective farm as a percentage of the inventory value of the agricultural equipment and mechanised means of transport up to 80 per cent of this value. The insurance policy is concluded annually.

INSURANCE OF AGRICULTURAL CROPS. Agricultural crops in collective farms are insured compulsorily. But since the indemnity is only a part of the value of the harvest, collective farms, so as to cover losses from natural disasters more fully, supplement the compulsory comprehensive insurance with voluntary insurance.

The collective farms can voluntarily insure both the sown area and all kinds of plantations as well as any crop. In the latter case all the area under the crop must be insured even if it is growing on different parcels of land. If the collective farm has sown different kinds of winter grain (for example, wheat and rye), the whole area of these sowings is accepted for insurance.

The insurance contract is concluded at a time of year before the sowing is carried out, and so it is impossible to determine the actual area. In this connection the sowings of annual crops are insured in respect of the area envisaged by the production plan of the farm, but perennial crops are determined from the actual area. If the sowing plan has still

not been approved when the contract is concluded, the sowings are insured on the basis of the area occupied by the sowings of these crops in the previous year.

The state insurance organisations pay the same claims in respect of voluntary insurance as with compulsory comprehensive insurance. They bear liability only for quantitative losses of harvest.

The voluntary insurance policies are only concluded for one growing period (the vegetation period).

The insured sums in respect of voluntary insurance of agricultural crops are fixed by the insured person, but within certain limits. Here it is necessary to bear in mind that the collective farms receive their gross income from the sale of the produce to the state, i.e., they make considerable expenditures after gathering the harvest. However, the insurance expires at the time of harvesting.

Since the insurance of agricultural crops is concerned not with the produce, but with the uncut harvest, it would be incorrect to fix the maximum insured sum on the basis of the full value of this produce. Insurance of the harvest at full value would also reduce the interest of the collective farms in carrying out preventive measures and conserving the agricultural crops during and after a natural disaster. Therefore the insured sum in respect of voluntary insurance is a certain percentage of the value of the harvest fixed with regard to the extent of insurance in respect of compulsory comprehensive insurance.

Agricultural crops which can be accepted for insurance under extended liability, including compensation for losses from drought, include cotton, tobacco, makhorka, volatile oil crops, and medicinal crops; sugar beet, flax, hemp and jute may also be additionally insured. The four last mentioned may be insured voluntarily within the limits of the difference between 70 per cent of the value of the average three-year harvest per one hectare and the insurance standard in respect of compulsory insurance. Here the harvest is valued at state purchasing prices. Grain, leguminous plants, vegetables and all other crops can be insured up to 80 per cent of the average value of the harvest.

The premiums are paid in full on concluding the contract. But if the policy is taken out a long time before the liability is due to arise, the insured person at his discretion can pay

by instalments, provided that the whole sum is paid not later than the dates stipulated by the policies of voluntary insurance of agricultural crops. Failure to comply does not invalidate the policy, but the insured sum is fixed in proportion to the ratio of the amount paid to the amount due.

If in assessing the loss or damage of agricultural crops it is found that the actual sown area of a particular crop is greater than that envisaged in the policy, the whole area of the crop is deemed to be insured, but the insured sum per hectare is reduced correspondingly.

INSURANCE OF ANIMALS. Compulsory insurance at full value only applies to pedigree cattle of collective farms upon reaching a certain age. Pedigree young animals, other animals on collective farms and cattle on the holdings of individuals are assessed at absolute standards. For fuller coverage of the insured in the event of loss of animals, compulsory comprehensive insurance may be supplemented by voluntary insurance. Voluntary insurance in collective farms covers all animals insured compulsorily at less than full value. Horses, camels, asses and mules over 18 years of age are not accepted for insurance.

Poultry on collective poultry farms, bees, fur-bearing animals and rabbits are not covered by compulsory comprehensive insurance. But for many collective farms they are of considerable value. Therefore collective farms may voluntarily insure fur-bearing animals (in nurseries), rabbits at the age of six months, poultry on poultry farms (also at six months) and colonies of bees in apiaries.

Animals are insured against infections originating from sickness and certain accidents, and also against forced slaughter. Before concluding the insurance contract the local insurance authorities check on the tending, feeding and utilisation of animals on the farm.

The amount of the insured sum in the policy is fixed by the board of the collective farm within the prescribed limit; for the insurance of cattle the limit is the difference between 80 per cent of value at state purchase prices and the standard amount for compulsory insurance; for poultry, rabbits, fur-bearing animals and bees the limit is 80 per cent of their value. All animals of one kind and age group must be insured on the same scale. All animals of a particular species on the holding which have attained a certain age are accepted for

insurance. The premiums are calculated on the number of animals at the time of concluding the contract, but all animals of that particular type and age on the farm during the year are deemed to be insured, without any additional payment.

The insurance contract can be concluded at any time for a period of one year. But no liability arises for loss of animals from sickness until 20 days after payment of the premium.

INSURANCE OF BUILDINGS BELONGING TO INDIVIDUAL PERSONS. The insured sum in compulsory comprehensive insurance of buildings which belong to individual persons, is determined by valuation. The valuation is considerably lower than the actual value of the buildings. Compulsory insurance only covers a part of the value of buildings and it does not fully meet the property interests of the insured. Therefore state insurance bodies, additionally to compulsory insurance, offer voluntary insurance of buildings owned by individuals both in rural and urban localities.

Insurance is restricted to dwellings and farm buildings set up on a permanent site and having walls and a roof. The insured sum for each building is fixed by the owner within the limits of the difference between 80 per cent of the valuation for voluntary insurance and the valuation (insured sum) under compulsory comprehensive insurance.

The valuation of buildings for voluntary insurance is carried out on the basis of the wholesale prices of building materials in the particular locality, the cost of transporting the materials and the wage rates of building workers. The valuation takes account of depreciation of the structure.

Main Conditions of Personal Insurance

Personal insurance offers many working people the opportunity to supplement state social insurance and social security out of their savings.

There are several kinds of personal insurance, distinguishable by the conditions governing the payment of the insured sum, i.e., the scale of the insurance liability.

Composite life insurance most fully covers the insured person and close relatives and it is the main type of personal insurance. With this type of insurance the insured sums are paid out on the insured person attaining the age stipulated

in the policy, in the event of permanent (complete or partial) disability as a result of an accident, or in the event of death of the insured person from any cause.

With composite life insurance the insured sum is obligatorily paid out in accordance with each policy. The insurance authority is liable only for permanent general disability; liability is not accepted for loss of occupational ability.

The composite life policy may be taken out by people aged from 16 to 60 years for a period of 5, 10, 15 or 20 years. The variety of alternatives enables each individual to select the period of insurance which he most wants. The insured sum may be assigned at the wish of the person insured.

The whole insured sum is paid out in the event of death, permanent total disability due to accident, or on attaining the endowment age. If the accident disability is permanent, but partial, only part of the insured sum is paid in proportion to the percentage disability. If the disability is considerable, preferential terms are offered. Thus, if the disability exceeds 50 per cent, the person insured is relieved of further contributions; if it is 30 to 50 per cent, the contributions are halved. In the event of death, or on reaching the endowment age, the insured sum is paid out independently of the payment for permanent disability due to the accident sustained by the person insured.

The contract is concluded only after medical examination (by a doctor appointed by the insurance authority) of the person desiring to be insured. Policies for up to 500 rubles can be issued without a medical certificate if the insured person wishes.

Premiums are paid annually, half-yearly, quarterly or monthly, but in advance for each period. In the event of default the person insured has two months grace in which to pay; the previous conditions of insurance hold good for this period.

The original conditions of the policy can be changed during its currency by the insured person, who has the following rights:

to stop further payment of premiums and retain the insurance at a reduced insured sum, provided premiums have been paid for not less than two years, or not less than one year for insurance for five years;

to discontinue the policy and receive back some of the

premiums paid (its surrender value) provided premiums have been paid for not less than two years, or not less than for one year for insurance for five years;

to obtain a loan if the premiums have been paid for not less than three years.

The person insured may also change the period of insurance, reduce the insured sum and pay correspondingly reduced contributions, nominate a different person to receive the insured sum, and renew a policy which has expired.

According to the regulations of composite life insurance the policy can be extended in an agreement whereby the insurance organisation undertakes to pay a pension in the event of death of the person insured. This is not an independent form of insurance–the pensions can only be a supplement to a policy of composite life insurance.

Life and disability time insurance does not provide for payment of the insured sum at a certain age; hence the liability with this kind of insurance is less than for composite life insurance. This allows lower premiums compared with composite insurance.

Life and disability time insurance policies are concluded with persons aged 16 to 60 for periods of one to 20 years, but not for more than the period in which the person insured reaches 65. The insured sum may be of any amount. In order to prevent insurance of sick persons and persons with a clearly reduced expectation of life, policies are concluded only upon production of a doctor's certificate.

Policies of whole life and disability insurance can be concluded with persons aged from 16 to 60. But unlike life and disability time insurance this policy is not concluded for a certain period, but until the death of the person insured.

The amount of the insured sum is at the discretion of the insured person. To conclude a policy it is necessary to have a doctor's medical certificate. Up to sums of 300 rubles the policy can be drawn up without a medical certificate.

The liability of the insurance organisation is to pay the insured sum in the event of death of the person insured, or permanent total disability due to accident; with partial permanent disability a corresponding proportion of the insured sum is paid.

The person insured is entitled to pay the premium throughout the currency of the policy (whole life), or only during

the first 10 or 20 years. This procedure enables the insured person to select the most convenient period for meeting the obligations under the policy.

With composite life insurance and life and disability time insurance, claims are paid in full immediately after the happening of the contingency. With these types of insurance the premiums are usually paid in instalments (annually, quarterly, monthly). In accordance with the conditions of these types of insurance (lump sum payment of the insured sum, and payment of premiums by instalment) they are called *lump sum insurances.*

Annuities are another kind of life insurance (*insurance of pensions* or insurance of incomes*). With such insurance the premium must be paid in a lump sum, and the insured sum is paid out gradually in the form of a pension. The pensions are paid only during the life of the insured person, either (depending on the terms of the policy) for a certain number of years, or until the death of the person insured. In the first case the insurance is said to be temporary, and in the other whole life. The first instalment of the pension is paid soon, for instance, one month after payment of the premium.

Accident insurance is the most simple kind of personal insurance. Here the insurance organisation is liable for accidents resulting in death or permanent (total or partial) disability.

In accident insurance the insured may be organisations employing staff who run special occupational hazards (persons working with explosives or at polar stations, fire brigade personnel and so on). All persons working in a particular organisation, persons with a particular occupation or individual workers can be accepted for insurance, subject to preliminary permission by authoritative government bodies.

Personal travel insurance is the only form of compulsory personal insurance. It extends to passengers of railway (except suburban), water, air and road transport. Travel insurance does not apply to motor transport on roads within a region, territory (or a republic where there is no subdivision into regions). Insurance authorities are liable for accidents occurring on the route followed.

* Insurance of pensions (annuities) is a separate kind of life insurance in the U.S.S.R., and it should not be confused with pensions supplementary to composite life insurance.

The insurance charge is collected by the transport organisation on the sale of the travel ticket. The charge depends on the basic cost of the ticket. The insurance charges collected at the booking-offices are remitted to the state insurance authorities.

Organisation of State Insurance

Property and personal insurance in the U.S.S.R. is a state monopoly. Since April 1958 the practical side of insurance work has been the responsibility of the Finance Ministries of the Union republics. In Union republics, Autonomous republics, regions and towns of republican subordination there are state insurance boards, whilst in districts and other towns there are state insurance inspectorates. These boards and inspectorates are under the control of appropriate financial authorities.

The state insurance authorities in Union republics carry on their business on cost-accounting principles. The assets of the insurance organisations of Union republics consist of the current receipts, the basic and reserve funds and the reserve of contributions in respect of life insurance. The scale of the basic and reserve funds, the method of distributing the accumulated savings and the income and expenditure plans in respect of state insurance transactions are laid down by the Councils of Ministers of Union republics.

The state insurance inspectorates are charged with the following functions: conduct of transactions in respect of compulsory and voluntary state insurance; explanatory work in respect of state insurance; management and control of insurance agents, supervision of the insured persons or organisations to ensure that they discharge their responsibilities regarding the maintenance of insured property in accord with fire precaution, agrotechnical and veterinary regulations; assessment and payment of claims and insured sums up to the limit authorised for the particular inspectorate; book-keeping and statistical records, and correspondence; making the returns required; adjudication of complaints against insurance agents.

The work of the inspectorates in determining and meeting claims is strictly controlled. The head of the district or town financial department considers the statement of claim and

taking the senior inspectors recommendation into account, decides whether or not to pay compensation.

The law relating to compulsory comprehensive insurance lays important responsibilities on village Soviet, the chairman of the Executive Committee of the Rural Council, or his acting deputy, settles claims concerning murrain amongst insured animals.

For wider coverage of the public by voluntary insurance, insurance agents have been appointed. Insurance agents are unestablished workers at inspectorates who are close assistants of the inspectors. Insurance agents are remunerated on concluding insurance policies and collecting the premiums by a percentage commission on the premiums, as collected and paid into the account at the State Bank.

The central machinery of the Ministry of Finance of the U.S.S.R. has a state insurance department which drafts instructions and regulations regarding questions of state insurance and submits them for the approval of the ministry; it also co-ordinates and directs state insurance in the Union republics.

In the interests of international economic co-operation, more particularly with the People's Democracies, it is necessary to carry out foreign insurance operations. In this connection a special institution–the U.S.S.R. Administration of Foreign Insurance (Ingosstrakh)–has been set up which operates on cost-accounting principles. Its work is closely connected with foreign trade.

The U.S.S.R. Administration of Foreign Insurance effects insurance of exports, imports, coastal and reshipment traffic, ships, cargoes, and other objects and valuables connected with transportation, and also Soviet property abroad. The administration also undertakes the insurance of the property of foreign physical and juridical persons and the personal insurance of Soviet citizens abroad. This body also undertakes reinsurance. It spreads some of its own risks and shares the risks of foreign insurance bodies. All these functions of the administration are carried on through representatives and insurance companies abroad, as well as through representatives within the U.S.S.R.

PART SEVEN

U.S.S.R. STATE BUDGET

Chapter 20

CONTENT AND FUNCTION OF THE U.S.S.R. STATE BUDGET

Nature of the Budget; Its Function in the Construction of a Communist Society

The content and function of the U.S.S.R. State Budget are determined by the socialist economic system, the character of the economic laws of socialism and the nature and functions of a socialist state.

In content the budget is a centralised monetary fund for the state as a whole, but at the same time it expresses certain economic and social relations arising in the process of the production, distribution and redistribution of the national income between the state and socialist enterprises and organisations, and between the state and the population.

The Soviet budget is the main financial plan for the formation and utilisation of the centralised monetary fund for planned development of socialist production, a steady rise in the living standards of the people and strengthening of national defence.

The centralised monetary fund is necessary in the conditions of extended socialist reproduction which require a proportion of the national income to be at the direct disposal of the state so as to meet general state demands, viz., expansion of production, cultural development and improvement of the welfare of the people.

The socialist economy cannot be developed in the proportions and at the rates prescribed in the national economic plan by basing the organisation of monetary circulation

within individual branches of the economy or administrative economic regions. In the conditions of a socialist economy it is economically necessary to concentrate the most important sources of accumulation within the general state centralised fund. Without these monies the state could not direct the economy of the country and discharge its other responsibilities.

This centralisation of large monetary resources permits uninterrupted financing of the growing needs of the socialist economy and the necessary proportions in the development of the national economy and the economies of the Union republics and economic regions.

The high rates of development of social production and of growth of the national income create a sound economic basis for Soviet finance and the U.S.S.R. State Budget which is its key element. Sound finance and a stable budget are also a prerequisite for planned development of the socialist economy and raising the standard of living of the people. The U.S.S.R. State Budget finances about 70 per cent of all capital investment and roughly 90 per cent of the social consumption funds.

At the present time over 80 per cent of the net income (monetary accumulation) of state enterprises is taken into the State Budget by way of turnover tax, transfers from profits and social insurance contributions. Income tax brings in some of the income of collective farms and co-operative enterprises. The budget has a direct effect on the planning and utilisation of the material and monetary resources which are at the direct disposal of the enterprises.

By concentrating most of the monetary savings of the national economy in the budget, a socialist state can plan the appropriation of large funds to achieve the high rates of extended socialist reproduction required for construction of a communist society. Great efficiency is also achieved in the utilisation of money on the national economic scale, insofar as it prevents dissipation of resources on secondary purposes, or on measures of an inessential nature.

Budgetary resources form (completely or largely) the fund for expansion of production, the reserve fund, the social consumption fund, the defence fund, and the fund for managing of the economy and cultural advance of the country. The role of the budget is not the same in the formation of all these funds. The funds directed towards material production are

formed partially from the enterprises own funds and from credit advances; the budget is therefore not the only source of finance. In the non-productive sphere (defence, education, public health, maintenance of state administrative bodies, etc.) finance is almost entirely from the budget.

In present conditions the budget is becoming an increasingly potent factor in the construction of a communist society. Throughout the period of all-round communist construction the state budget will continue to play an important part in the distribution of the social product and national income.

To accomplish its principal task–construction of the material and technical basis of communism–the U.S.S.R. requires to build an immense number of new enterprises, develop new industries on which the economic return is maximised and to bring about a steep rise in agricultural production. This entails a still greater role for the budget in the distribution and redistribution of the national income between branches of the economy.

In view of the fact that the consumption funds are growing more rapidly than the increase in personal income, the redistribution of monies between the productive and non-productive spheres is on an increasingly larger scale. In particular, appropriations to social and cultural amenities are increasing, though the leading role of budgetary expenditure in financing the economy is being maintained.

The importance of the budget is also increasing in territorial redistribution of the national income. In the C.P.S.U. Programme it is stressed that "the Party will continue its policy ensuring the actual equality of all nations and nationalities with full consideration for their interests, and devoting special attention to those areas of the country which are in need of more rapid development. Benefits accumulating in the course of communist construction must be fairly distributed among all nations and nationalities".

Unlike credit (refundable) methods of accumulation and expenditure appropriations from the budget are made on principles of *non-returnable grants* for measures envisaged in the national economic plan.

The practice of communist construction in the U.S.S.R. and of the building of socialism in People's Democracies has confirmed Lenin's great prediction that when the means of production are socially owned the state budget becomes the

budget of the whole national economy to the degree that the state masters the economy of the country.

The national economic nature of a socialist budget is determined by the social ownership of the means of production and by the function of the state as economic organiser. This distinctive feature of a socialist budget represents its radical advantages as compared with budgets in capitalist countries. This is made manifest in that:

(1) *Revenue comes mainly from the receipts of the socialist economy.* The net income of the community arising from the sphere of material production is the principal source of the continually growing revenue. Most of the surplus product created in state enterprises and part of the income of co-operatives and collective farms are concentrated in the budget. The payments made by socialist enterprises exceed 90 per cent of all budgetary resources in the U.S.S.R., and in the near future these will be the only source of revenue.

(2) *The budget finances the major part of the outlay relating to the expansion of socialist production and social consumption funds.* Most of the fixed assets, the reserves and the working capital of new projects are provided from budget resources. The budget thus facilitates the steady development of the productive forces of the country on the basis of advanced techniques and is instrumental in creating the material and technical basis of communism. Large allocations are made from the budget to the development of socialist culture and public health and to the material security of citizens in old age and disability.

(3) *The budget directly influences the entire process of production and is an important instrument in control by the ruble.* The Soviet state establishes financial interrelations between enterprises, organisations and institutions which are designed to strengthen cost accounting, ensure economical working, the maximal searching for and use of unused reserves within industry, and to speed up the rates of accumulation within the economy.

(4) *The budget plays an active part in the formulation and implementation of national economic plans.* A socialist budget is drawn up on the basis of state aims regarding the scale, variety and cost of production, the capital investment plan and other plan targets. The budget facilitates the discovery of reserves in the process of drafting the national

economic plan and is an important factor in the implementation of the plan.

Being associated with the economy in the closest possible way, the U.S.S.R. State Budget consistently grows with the expansion of socialist production and the rise in national income.

The Soviet budget is *the central link in the financial and credit system.* Its leading position is objectively determined by the fact that social ownership of the means of production is predominant. The budget achieves the necessary co-ordination between the sources of revenue and the employment of these resources in the process of extended socialist reproduction.

The budget of a socialist state relies on the branches of the economy for revenue, but at the same time it is the leading and co-ordinating plan for the financial plans of the branches of industry, influencing their formulation. Only on the basis of thoroughly worked out financial branch plans can the revenue from socialist enterprises and the required budgetary appropriations be correctly estimated. On the other hand, the estimates of enterprises and economic organisations are finalised in drawing up the budget.

The budget not only finances the economy, culture and administration, but it also influences the volume and structure of bank credit. An important source of credit is the surplus of budgetary revenue over expenditure, plus temporarily free budget resources. More than 50 per cent of the total credits issued by the U.S.S.R. State Bank are from resources of the State Budget.

A close tie between the budget and credit is also apparent in the fact that the amount of credit required largely depends on the arrangements by which enterprises are allocated their own working capital and on the arrangement for financing capital investment. This relationship is particularly marked in the participation of the U.S.S.R. State Bank jointly with the enterprises themselves in the formation of working capital in some branches of the economy. Beginning 1966 part of the capital investments of state enterprises are financed by long-term credits, which are repaid out of future profits and depreciation deductions.

Since 1938 the state social insurance budget has been incorporated in the U.S.S.R. State Budget.

The relation between the budget and the state insurance system is shown by the fact that a proportion of the profits of the state insurance organisation is taken into the budget. Some of the amounts collected for compulsory and voluntary property insurance are also concentrated in the budget for carrying out various preventive measures.

The State Budget has a great influence on currency circulation, and is instrumental in strengthening the ruble. Currency issues are not used in the U.S.S.R. to meet state expenditure; the issues of currency depend solely upon the requirements of the trade turnover.

The *political importance of the budget* is exceptionally great. The budget provides the financial basis for carrying out the policy of the Communist Party and the Soviet Government, which directs the development of the socialist economy in accordance with the economic laws of socialism.

"The centralisation of finances," Lenin wrote in 1918, "and the concentration of our forces are essential; unless these principles are applied in practice we shall not be able to carry out the economic reforms. . . ."*

The programme of the C.P.S.U. stresses the need for a unified state policy in financial matters and therefore in the budget.

The U.S.S.R. State Budget assists the development of socialist democracy. Each local Soviet, by establishing its own budget, has the opportunity to provide the financial resources required for economic, cultural and political measures. At the present time there are more than 50,000 local budgets.

In view of the immense national economic and political importance of the budget, it is passed annually by a session of the Supreme Soviet of the U.S.S.R. and is a legal enactment. Conferring the force of law on the budget facilitates the collection of monetary resources into the budget in full and on time, and promotes the purposeful and economical use of budget resources.

The U.S.S.R. State Budget clearly reflects the state's national policy, the policy of strengthening the friendship of the peoples of the U.S.S.R. The Party and Government have allocated many thousand millions of rubles to eliminating the age-old economic and cultural backwardness of formerly

* Lenin, *Collected Works*, Vol. 27, p. 384.

subject outlying regions, thus making possible economic, cultural and political progress in every Union republic.

In the period of all-round construction of communism significant changes are being made in the U.S.S.R. State Budget. The nature of distribution and redistribution through the budget is changing. The forms and methods of accumulation in the budget are also being improved, the economic work of financial bodies, enterprises and banking institutions is increasing in importance.

Structure of the Revenue and Expenditure of the U.S.S.R. State Budget

The *revenue of the budget,* in its economic nature, is divided into two main groups, namely, monies from socialist enterprises and organisations, and payments by individuals.

The revenues from organisations of the socialist sector are:

payments from state enterprises: turnover tax, deductions from profits, forestry royalties, gross incomes from housing, public utilities and other organisations not on a cost-accounting basis; sums from the social insurance budget, customs revenue and other revenues from the socialised organisations;

payments of socialist enterprises based on collective-farm and co-operative ownership (consumer co-operative organisations pay turnover tax and income tax, and collective farms pay income tax).

The net income of society created at state enterprises is concentrated in the budget mainly as turnover tax, deductions from profits, and social insurance contributions.

In the post-war period, owing to the great advance of the socialist economy, the revenue from turnover tax and deductions from profits has been continually increasing. The total revenue from these sources increased from 20,700 million rubles in 1946 to 64,700 million rubles in 1964. The revenue from profits has increased at a particularly fast rate; the proportion from this source increased from 5.1 per cent to 32.1 per cent in the same period.

Personal incomes are partially mobilised for the state budget by means of taxes and loans to the state; they are used for financing economic and cultural construction. With the development of socialist production and the growth of ac-

cumulation within industry, taxation on persons is being reduced. At the present time it only accounts for 7.1 per cent of the total revenue.

The main items in the revenue of the U.S.S.R. State Budget in 1966 are shown in the following table.

	Total, in thousand million rubles	Proportion, %
Total revenue	105.5	100.0
Made up from:		
1. Payments from socialist enterprises and economic organisations	96.6	91.6
of which:		
turnover tax	39.5	37.5
transfers from profits	35.2	33.4
social insurance contributions, income tax from collective farms and co-operatives, customs, and sundry receipts from the socialist economy	21.9	20.7
2. Payments by persons	8.9	8.4
of which:		
state taxes	8.1	7.7

Since, in a few years' time, the socialist economy will be the only source of revenue, enterprises, financial and credit institutions will play an increasing part in discovering reserves within the economy which can be used to reduce production costs and increase the profitability of all braches of the economy. Beginning 1966 the revenue side of the U.S.S.R. State Budget will reflect a new payment made by industrial enterprises–the charge for the use of productive assets.

In content, *budgetary expenditure* is divided into four main groups, namely, expenditure on the economy, on social and cultural measures, defence and on upkeep of the organs of government and administration.

Expenditure on the economy is linked with the expansion of production and it is the employment of a part of the national income for purposes of accumulation. This expen-

diture is subdivided both by the branches of the economy to which it is allocated (industry, agriculture, transport, posts and telegraphs, etc.) and by the purpose of the allocation (capital investment, working capital, state stocks, state financial reserves, and other production needs). The expenditure on social and cultural measures and on administration is primarily connected with the building up and utilisation of the consumption fund.

The main part of the budget revenue is used for financing branches of the economy.

In 1966, 43,800 million rubles* are set aside from the budget for the economy, whilst a further 35,500 million rubles are provided by enterprises and economic organisations. The decisions of the plenary meeting of the Central Committee of the C.P.S.U. held in September 1965 enhanced the role of credit in financing the country's economic development. Total capital investments by the state will amount to 81,800 million rubles. Thus the appropriations from the budget are about 54 per cent of the total investment in the economy.

Expenditure on financing the economy is the key item of expenditure and it is extremely important in ensuring high rates of extended socialist reproduction and in creating the material and technical basis of communism. Appropriations to heavy industry which is the foundation of a socialist economy, occupy the central place in this. The largest sums are allocated to the iron and steel, coal, power, chemical, machinebuilding and building industries and to other branches of heavy industry.

Large appropriations are also made for the development of agriculture and, above all, for increasing grain production and livestock farming, and also for financing the food and other light industries.

The Soviet state spends annually large sums on housing. In 1959-65 living space totalling 650-660 million square metres will be provided by state capital investment and by personal savings assisted with loans from the state. The state budget plays an important part in implementing this housing programme.

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* Excluding appropriations from the reserves of the Council of Ministers of the U.S.S.R. and Councils of Ministers of the Union republics directed mainly to the development of the economy.

A characteristic feature of socialist budgets is the high proportion of expenditure on social and cultural services. The continuing increase in expenditure in this direction will allow for expansion of secondary education, a larger intake of students in higher and secondary specialised educational establishments, a further development of science, the improvement of medical services, an increase in the number of sanatoria and health resorts, and an increase in state pensions and allowances and other payments to the population.

The maintenance of administrative bodies is also financed from the State Budget. These expenses are only a small proportion of the budget and they are being systematically reduced by improving the economic administration and by practising economy.

The figures of the budget are clear evidence of the peace-loving policy of the Soviet state, which is directed at preserving and strengthening peace, extending international co-operation and developing economic relations with all countries in accordance with Leninist teaching regarding the possibility of the peaceful coexistence of socialist and capitalist systems.

The expenditure from the U.S.S.R. State Budget in 1965 and 1966 is summarised in the table below.

	1965		1966	
	Total, in thousand million rubles	Proportion, %	Total, in thousand million rubles	Proportion, %
Total expenditure . .	99.5	100.0	105.4	100.0
of which:				
to financing the economy . .	42.4	42.6	43.8	41.6
to social and cultural measures .	37.5	37.7	40.4	38.3
to defence	12.8	12.9	13.4	12.7
to administration . .	1.1	1.1	1.3	1.2

Thus, almost four-fifths of all Soviet budgetary expenditure is on the economy and on social and cultural services.

Chapter 21

BUDGETARY SYSTEM OF THE U.S.S.R.

Budgetary System; Main Principles of Organisation

The U.S.S.R. State Budget amalgamates the Union budget and the budgets of the Union republics, territories, regions, areas, districts, towns, settlements and villages.

All these budgets are connected with each other and have definite interrelations laid down by law, and together they constitute the budgetary system of the U.S.S.R. The organisational structure of the budgetary system is determined by the fact that the country is a voluntary Union of Soviet Socialist Republics in which each republic of the Union enjoys equal rights.

In the Communist Party Programme it is laid down that in the period of construction of communism the development of the socialist state will be in the direction of the all-round extension and perfection of socialist democracy widening the participation of all citizens in the administration of the state, in the management of economic and cultural development, improvement of the government apparatus, and increased control over its activity by the people. The Leninist principle of democratic centralism, which ensures the proper combination of centralised leadership with the maximum encouragement of local initiative, the extension of the rights of the Union republics and greater creative activity of the masses, will be promoted.

The consistently democratic spirit of the Soviet state is reflected also in the organisation of the budgetary system of the U.S.S.R. and in the budgetary process.

The principle of democratic centralism is embodied in the budgetary system of the U.S.S.R. in that the whole financial system is directed from a single centre, while at the same time wide powers are assigned to local Soviets, and the people actively participate in work on the budget. Each Soviet draws up its own budget.

The U.S.S.R. State Budget includes the Union budget and the State Budgets of the 15 Union republics. In turn the

State Budget of each Union republic combines the budget of the Union republic, the State Budgets of Autonomous republics and local budgets. The State Budget of an Autonomous Soviet Socialist Republic includes its own republican budget and the budgets of the towns and districts within the Autonomous Soviet Socialist Republic. The budget of a territory or region covers its own budget and the budgets of the localities within it. The budgets of towns which are directly subordinate to the republic, regional and territorial authorities combine the urban budget and the budgets of urban districts. The budget of a district combines its own budget, and the budgets of towns which come under the district and the settlement and village budgets. The settlement and village budgets, and also the budgets of towns which come under districts, have no subordinate budgets. The U.S.S.R. State Budget also includes the state social insurance budget. The Constitution of the U.S.S.R. provides that the supreme organs of government and administration are responsible for approving the U.S.S.R. State Budget and the report on its implementation, and are also responsible for establishing the taxes and other revenues of the Union, republican and local budgets.

The republican budgets provide the financial basis for economic and cultural construction of republican significance. A great part is played in economic and cultural construction by the local budgets of territories, regions and districts, towns, settlements and villages.

In the U.S.S.R. the different links within the budgetary system are compatible with each other. The revenue of all the budgets comes from common sources. In necessary cases higher-ranking budgets provide financial support to lower-ranking budgets. Each budget, from the republican level to the village level, receives the necessary revenue for financing the economic and cultural measures arising from the single national economic plan.

The system for obtaining the revenue of the budgets of each Union republic is based on Lenin's nationalities policy. Deductions from the taxes and income of the state as a whole enable the national republics to undertake extensive economic and cultural activity. In necessary cases further funds are made available from the Union budget for economic and

cultural development, in addition to the appropriations from the budgets of republics.

In capitalist federal states the budgetary system usually consists of three tiers, viz., the federal budget, the budgets of the constituent parts of the federation, and the local budgets. These budgets are allocated certain sources of revenue. The main and decisive sources of income are secured for the federal budget; the remaining revenue for the constituent parts of the federation and the self-governing local authorities are hardly ever sufficient to cover their expenditure. As Lenin wrote: "In Europe, and in every bourgeois country, municipal revenues are those revenues ... which the bourgeois central authority is willing to sacrifice for cultural purposes, *because they are secondary items of revenue*, because it is inconvenient for the central authority to collect them and because the principal, cardinal, fundamental needs of the bourgeoisie and of its rule have already been met by the *vast sums of revenue*."*

Soviet democracy is also manifest in the budget rights of the legislative bodies of the U.S.S.R. The deputies of the U.S.S.R. Supreme Soviet scrutinise the draft budget in detail. They have the power to make amendments, additions or alterations as regards both the expenditure and the revenue. Accepting the amendments of the Budget Commissions and deputies, the U.S.S.R. Supreme Soviet passes the budget, which has the force of law. The U.S.S.R. Supreme Soviet when it approves the budget, at the same time considers the reports on the implementation of the budget in the previous year. This enables the actual progress in economic and cultural construction to be assessed, particular shortcomings to be revealed, and ways of eliminating them to be proposed. The Government's Report on the implementation of the budget in the previous period and on the draft proposals for the coming year, the findings of the Budget Commissions, the speeches of the deputies and the Budget Act are all made public by press and radio, etc.

Similar powers are enjoyed by the Supreme Soviets of the Union and Autonomous republics and by the local Soviets.

Wide strata of the population are drawn into compiling,

* Lenin, *Collected Works*, Vol. 13, p. 342.

scrutinising and implementing the budgets. To the Soviets are elected the best people in the country–workers, peasants, office employees and Soviet intellectuals. Two million deputies to Soviets and an additional two million or more voluntary workers take part in the work of the permanent budget and other commissions of the local Soviets. These commissions assist the Soviets and their executive bodies in carrying out economic and cultural construction. The members of the Budget Commissions and the group of voluntary workers assisting them verify the preparation of the budget, its implementation, and the soundness of the economic and financial plans of enterprises and organisations; they also examine the report on the implementation of the budget, and present their conclusions to the Soviets. The members of the budget commissions and the voluntary workers visit enterprises, economic organisations and institutions, call attention to any shortcomings and indicate ways of eliminating them. The Budget Commissions of local Soviets hear progress reports on the fulfilment of the budget as regards particular items of revenue, and check the validity and purposefulness of expenditure.

The permanent commissions of the Soviets, as indicated in the Programme of the C.P.S.U., are playing an increasing role in the U.S.S.R. More and more questions are gradually being submitted to them for their decision insofar as they are within the competence of the directorates and departments of the executive bodies. This is evidence of further democratisation of state administration.

The Constitution of the U.S.S.R., approved in 1936, reflected the completion of laying the foundations of the Soviet budgetary system and delimited budgetary powers between governmental and administrative bodies.

Distribution of Revenue and Expenditure Between Union, Republican and Local Budgets

The unity of the political and economic basis of the Soviet state results in the unification of sources of revenue for all the budgets comprising the State Budget. All the budgets share in the revenues common to the budget system as a whole; the allocation of these revenues between the budgets is planned so that all the types of budgets may be balanced.

In the allocation of revenue and expenditure between the budgets, account is taken of the functions of the state administrative bodies of the U.S.S.R., Union republics and local Soviets. In the Law of the Budgetary Powers of the U.S.S.R. and Union republics, it is laid down that revenue and expenditure is divided between the Union budget and the State Budgets of the Union republics on the basis of the principle of democratic centralism, which ensures observance of the sovereign rights of the Union republics, Autonomous republics and local Soviets and the unity of the budgetary system and financial policy of the Soviet socialist state. It is possible to provide the necessary resources for the expenditure of all the individual budgets and co-ordinate the national economic development plan with the available resources provided that the reallocation of resources between the individual budgets is planned. In the distribution of revenue, revenue from enterprises usually goes to the budget of its higher authority.

Revenue which is assigned completely or partially to a particular kind of budget, either permanently or for a certain period of time, is said to be *assigned revenue.* Republican and local budgets receive the revenue and other income of the republican and local economy, forestry revenue, income tax on collective farms, income tax on co-operative enterprises and voluntary organisations, agricultural tax, local taxes and levies and various other payments. The republican budgets of the Union republics receive the bulk of the allocations from the profits of enterprises which are under the authority of the ministries and 50 per cent of the income tax on individuals.

However, this does not imply that budgetary revenue relies solely on assigned revenues. Individual administrative-territorial units (republics, territories, regions, districts) have insufficient assigned revenue to cover the expenditure required by the national economic plan. In such cases the amounts required, in the form of deductions from all-Union state taxation and revenue, are transferred from the higher-ranking budget to the lower-ranking budget to achieve a balance. These *adjustment revenues* cover deductions from turnover tax, income tax and other sources.

The amounts to be assigned for adjustment revenues are fixed annually as percentages of revenue received by the

Supreme Soviet of the U.S.S.R. when the budget is approved. Thus the U.S.S.R. State Budget Law for 1962 set the deductions from turnover tax to the state budgets of the Union republics at: R.S.F.S.R.–32.2 per cent, Ukraine–29.5 per cent, Byelorussia–55.2 per cent and so on. According to the Law on Budget Powers of the U.S.S.R. and Union Republics, 50 per cent of income tax passes into the budgets of the Union republics, with the exception of the Uzbek and Armenian S.S.R., which receive the entire proceeds of the tax; 50 per cent is also transferred to the republics of the income from sale of the 3 Per Cent State Internal Lottery Loan bonds and from the sums placed by the state savings banks in state loans out of the increased stable deposit balances. Other adjustment revenues include forestry royalties, agricultural tax, income tax on collective farms and income tax on co-operative enterprises and voluntary organisations.

The revenues assigned to local budgets are allocated between the various types of local budgets: viz., territory, regional, district and town budgets. Thus the transfers from profits come into the budget appropriate to the authority in charge of the enterprise: i.e., the transfers from profits of enterprises of Union, republican and local significance pass respectively into the Union, republican and local budgets.

The unity of the sources of revenue for the Union, republican and local budgets ensures that state bodies are financially interested in the implementation both of the republican or local budget, and of the U.S.S.R. State Budget as a whole. Allocations from state taxation and other revenue to the corresponding budgets encourages local Soviets and financial bodies to take a direct interest in the work of the enterprises and economic organisations under Union jurisdiction so as to influence the fulfilment and overfulfilment of the financial obligations of enterprises and organisations under the budget.

A large part of expenditure is made from the Union budget. Enterprises and economic organisations which are administratively subordinated to all-Union ministries and government departments of all-Union status are financed from the Union budget. Thus the Union budget finances rail, water (sea and inland waterway) and air transport, posts

and telegraphs, foreign trade and other measures of Union significance.

Large sums are spent from the Union budget on those social and cultural services (education, public health, science, social security) which are of all-Union significance. The Union budget also provides pensions and benefits to Second World War invalids. The Union budget is responsible for financing all measures connected with the defence of the country, with stockpiling and with accumulating a financial reserve.

The maintenance of the supreme organs of government and state administration (Supreme Soviet of the U.S.S.R., Council of Ministers of the U.S.S.R., Union ministries, Supreme Court and Procurator's Office) is also covered from the Union budget.

The republican budgets of the Union republics finance enterprises, institutions and organisations which are under the jurisdiction of republican authorities; appropriations are made to enterprises of all branches of the economy which are under the control of republican ministries and administrations.

The republican budgets maintain social and cultural institutions and provide facilities of republican significance (higher educational establishments, technical colleges, research institutes, theatres, museums, hospitals, convalescent homes); they also pay special personal pensions to individuals, family and maternity allowances and social security benefits and maintain the supreme organs of state administration of the Union republics (Supreme Soviets of republics, Councils of Ministers, ministries and administrations of republics), and also the People's Courts and other judicial institutions of Union republics.

Local budgets, being an integral part of the U.S.S.R. State Budget, are assured of stable sources of revenue which increase year by year. Local budgets finance industrial enterprises and organisations (light industry, food industry, building materials, etc.) which are under the jurisdiction of local Soviets; the local budgets are also responsible for municipal services and amenities in towns and other centres of population (power stations, tramways, trolleybuses, public baths, laundries, water supply, sewage, parks, lighting), as well as housing, trade, building, repair and upkeep of roads and unsurfaced tracks of local importance, and agricultural

services (agricultural shows, agricultural laboratories, experimental plots, veterinary stations, and so on).

Local budgets finance the primary and secondary schools, schools for young industrial and agricultural workers, children's homes, gardens, playgrounds, libraries, village reading-rooms, and clubrooms, technical colleges, teachers' training schools, hospitals, nursing homes, health centres, first-aid posts and maternity homes. Local budgets pay pensions and benefits to the disabled of the First World War and Civil War, to their families and to the families of those who perished in the war; grants are made for labour training and rehabilitation of disabled persons and the upkeep of homes for invalids; the local organs of government and administration are also maintained. Thus the local budgets mainly finance local economic development and social and cultural services. The expenditure on social and cultural measures is about three-fourths of the total expenditure of local budgets.

The division of revenue and expenditure between the various local budgets (region, district, town, settlement and village) is determined by the Executive Committee of the appropriate Soviet.

Budgetary Powers of the U.S.S.R., of Union and Autonomous Republics and of the Local Soviets

After the adoption of the U.S.S.R. Constitution in 1936 the Soviet Union achieved outstanding successes in economic development and in improving the material welfare of the people. Socialist democracy was raised to a new level. The development of the democratic spirit in the budget system was clearly expressed in the Law on the Budgetary Powers of the U.S.S.R. and Union Republics, passed by the Supreme Soviet of the U.S.S.R. at the third session of its fifth convocation (1959). This law ensures a completely democratic approach to revenue and expenditure arrangements of budgets of the Union republics, which are constructed on the principle of democratic centralism, and it also ensures independent rights for all the Union republics and local

Soviets, and unity of the budget system and financial policy of the Soviet socialist state.

The Supreme Soviet of every Union republic has passed a Law on the Budgetary Powers of Union Republics and Local Soviets. By these laws extensive budget powers have been granted to the Soviets of Autonomous republics, territories, regions, districts, towns, settlements and villages.

The legal relations between the different types of budget are based on the principles of democratic centralism, the national policy of the Communist Party and the unity of all links of the budget.

Budgetary powers are the legal standards which control the principles on which the budgetary system is arranged and the process of drafting, scrutiny, approval, and implementation of the budget. The Constitution of the U.S.S.R. lays down the main budgetary powers of the U.S.S.R., Union and Autonomous republics and local Soviets.

The Supreme Soviet of the U.S.S.R. approves the U.S.S.R. State Budget annually and also the report on the implementation of the budget.

Only the Supreme Soviet of the U.S.S.R. has the power to fix the taxation and revenues which enter into the Union, Union republic and local budgets. This unified system of fixing taxation prevents the fiscal policy of the state being violated by local bodies. The Supreme Soviets of Union and Autonomous republics and local Soviets organise through their executive bodies the collection of taxes and revenue on their territories in strict accordance with the Union legislation.

The Council of Ministers of the U.S.S.R., as an executive body, examines the draft State Budget as presented by the Ministry of Finance of the U.S.S.R., gives rulings regarding any disagreement between the Ministry of Finance, planning bodies, Union ministries and government departments, and then submits it for approval by the Supreme Soviet of the U.S.S.R.

The Council of Ministers of the U.S.S.R. guides the budgetary work and takes the appropriate measures for implementation of the State Budget. All practical and organisational work on compiling the draft budget and its implementation is delegated to the Ministry of Finance of the U.S.S.R. and to republican and local financial bodies. The Ministry

of Finance of the U.S.S.R., the ministries and government departments of the U.S.S.R. and the Councils of Ministers of the Union republics ensure that all budgetary revenue is collected and all expenditure is made.

All the Union republics enjoy equal rights in drafting, scrutinising, approving and implementing the republican State Budget. The Supreme Soviet of the Union republic, as the highest organ of government, approves the revenue and expenditure of the republican budget as a total sum and also approves the report on the implementation of the budget.

The Councils of Ministers of the Union republics, as executive bodies, present their draft budgets and reports on implementation for approval by the Supreme Soviets of the Union republics; the implementation of the State Budgets of the republics is organised by the Councils of Ministers through the Finance Ministries of the Union republics, the republican ministries and government departments, the Councils of Ministers of the Autonomous republics and the Executive Committees of territorial and regional Soviets.

The budgetary powers of Autonomous republics and local Soviets are defined by the Constitutions of the Union republics and Autonomous republics and by the Laws on the Budgetary Powers of Union and Autonomous Republics and Local Soviets.

The local Soviets approve their own budgets, which finance economic and cultural construction.

The Soviets (in territories, regions, areas, towns, districts, settlements and villages) approve the annual budgets and financial reports which are presented by their executive bodies. The decisions regarding the approval of the budget are published for general information.

The Executive Committees of the Soviets, besides compiling the draft budget and submitting it to the approval of the appropriate Soviet, organise the implementation of the budget through the financial and other departments and administrations of the Executive Committees.

During recent years the Soviet Government has carried out a number of important measures directed at strengthening the sovereignty of the Union republics, and extending their powers in administration of the economy and culture. In order to obtain a more effective solution of economic and

cultural construction problems, the system of planning and financing the economies of Union republics has been changed. Now the U.S.S.R. state plan for national economic development only lays down the total volume of the gross production and marketable production of enterprises under republican jurisdiction, and the volume of capital works in respect of the republic as a whole.

The system of drafting the U.S.S.R. State Budget has also been altered. Revenue and expenditure items in respect of the budgets of the Union republics are now included in the U.S.S.R. State Budget without any breakdown between republican and local budgets. The power to distribute revenue and expenditure in respect of republican budgets is assigned to the Councils of Ministers of the Union republics. Any surplus revenue discovered and received during the implementation of the budget remains at the disposal of the republic; it is used for financing the economy and social and cultural services, including capital investment.

The Councils of Ministers of Union republics are empowered, by agreement with the Ministry of Finance of the U.S.S.R., to institute cost accounting in regional, territorial and town (towns under republican jurisdiction) administrations and departments concerned with industry. They may allow deferment or writing off of arrears of income tax of individual collective farms, and may increase appropriations from the budgets of republics to capital repair of dwelling houses, schools, hospitals and children's institutions under the jurisdiction of local Soviets.

During the year it may become necessary in territories or regions to undertake urgent expenditure on financing the economy and social and cultural services, expenditure which it did not prove possible to anticipate when the budgets of the Union republics were approved. Therefore, besides current funds, some Union republics (R.S.F.S.R.) have formed a contingency fund for unforeseen expenditure by the Executive Committees of territorial and regional Soviets; this fund is used to cover urgent expenditure.

Surpluses of revenue over expenditure in republican and local budgets arising at the end of the year from over-plan revenue or savings in expenditure, remain at the disposal of the local executive bodies and are spent at their discretion.

The wide budgetary and other powers of the Union republics guarantees the further strengthening of their economy; they testify to the greater part being played by republican and local government and administrative bodies in directing the national economy and cultural development.

Chapter 22

PRINCIPLES OF BUDGETARY PLANNING IN THE U.S.S.R.

What Budgetary Planning Is; Its Significance

Financial planning, as a component part of unified national economic planning, is required to ensure the necessary proportions in the forming of monetary funds and in their rational utilisation. These objectives are attained by an integrated system of financial plans in which the U.S.S.R. State Budget occupies the key position. In financial planning the leading and organising role therefore belongs to budgetary planning.

Budgetary planning is a complex and systematic process in which the organisational work of drafting, scrutinising, approving and implementing the U.S.S.R. State Budget is combined with the planning of revenue and expenditure so that national economic plans will be fulfilled.

The procedure is mainly laid down in the Law on the Budgetary Powers of the U.S.S.R. and Union Republics (1959), in the Laws on the Budgetary Powers of the Union Republics, Autonomous Republics and Local Soviets and in the regulations governing the drafting and implementation of the U.S.S.R. State Budget.

The U.S.S.R. State Budget, as the main financial plan of the country, is closely associated with the financial plans (budgets of income and expenditure) of state enterprises and organisations, of monetary income and expenditure of the population, the credit and cash plans of the U.S.S.R. State Bank, the finance and credit plans of the U.S.S.R. Construction Bank, and the financial plans of the state savings banks, state social insurance, and state property and personal insurance. Some budgetary indices are based on the financial plans

of co-operative organisations. Budgetary planning therefore covers the plans of all the subsystems of the unified system of finance and credit in the U.S.S.R.

The U.S.S.R. State Budget is not related in the same way to all the various financial and credit plans. Some finance and credit plans, such as the state social insurance budget and the aggregate estimates of institutions in the non-productive sphere, are entered in the budget in their entirety (after appropriate verification). The income and expenditure budgets of ministries and government departments enter into the budget under headings showing the payments into the budget and the monies received from the budget. The financial plans of co-operative organisations are linked with it through payments of turnover tax and those of savings bank and state insurance mainly through transfers of part of their profits.

Some revenue and expenditure subheads provide data for the balance sheet of monetary income and expenditure of the population. For instance, the incomes of persons employed in the non-productive sphere which are a charge on the budget (wages, pensions, benefits and students' grants are included in this balance sheet), as are payments from the population into the budget.

The State Budget is linked with the credit plan of the State Bank in that temporarily idle budget funds, which are in accounts at the State Bank, are one of the main sources of the bank's deposits. The annual surplus of budget revenue over expenditure is another such source.

The various financial plans are dovetailed with each other in the drafting stage when the totals of revenue and expenditure under the various subheads are fixed on the basis of co-ordinated and verified calculations.

The drafting and implementation of the U.S.S.R. State Budget is closely co-ordinated with the targets set in the national economic plans; this underlines the link between budgetary planning and national economic planning. Budgetary planning has a positive influence on national economic planning, and promotes the fulfilment of the economic plans in full and on time.

Budgetary planning is based on general principles of socialist planning and it provides for:

(1) accomplishment of national economic development

objectives arising from the directives of the Communist Party of the Soviet Union;

(2) widespread participation of the mass of the people in drafting and implementing production and financial plans;

(3) economising in men, money and materials in all aspects of economic and cultural construction.

By means of budgetary planning the centralised revenue of the state as a whole is balanced against expenditure on the basis of a realistic and sound budget, full disclosure of revenue and expenditure, and unity of the budgetary system.

The method of balancing the revenue and expenditure of the budget ensures the correct proportions in the allocation of budgetary resources. But this balancing does not exclude the possibility of budget surpluses in the plan and in its implementation.

The following questions are decided in the process of preparing the budget:

(1) the total revenue available from each source is determined with maximum regard to existing possibilities for additionally expanding production and accumulating savings;

(2) the total expenditure is established for each type of outlay, with insistence on economy in the use of material and monetary resources;

(3) reserves are created in the national economy, including budgetary reserves;

(4) revenue and expenditure are allocated between the various links in the budgetary system, and within these links, between the budgets;

(5) all the budgets are consolidated into the U.S.S.R. State Budget which is integrally linked with the national economic plan.

In the drafting of budgets the separate indices of the national economic plans are verified, planning calculations of enterprises and organisations are corrected, and the soundness of financial plans and estimates is checked. Only as a result of such work can the interrelations between the budget and the economy in respect of both payments into the budget and appropriations from the budget be correctly determined. In the process of budgetary planning control is exercised over the economic and financial activity of enterprises, organisations and institutions and over their fulfilment of the targets of the national economic plan.

Budget Classification

Budget classification is the obligatory grouping of budget revenue and expenditure according to uniform criteria with precise designation and consecutive numbers for the individual subheads, as based on the economic classification of state revenue and expenditure of the U.S.S.R.

Since the U.S.S.R. State Budget includes several tens of thousands of budgets, uniform grouping of revenue and expenditure is necessary to make possible the consistent unification of the items of income and expenditure of all the budgets. This is of great importance for precise budget planning.

The budget classification ensures: (a) uniform grouping of the revenue and expenditure of the budgets according to uniform criteria; (b) linking and consolidation of the individual estimates and financial plans into aggregate plans for the branches of the economy; (c) the necessary tie-up with the budget of the financial plans of ministries and government departments; (d) systematic combination of budgets in one integral whole; (e) the possibility of comparing and analysing budgetary data and of supervising the use of budget monies; (f) finally, the revenue and expenditure of the budget is so broken down as to indicate its social and economic content.

The revenue classification is based on *the source of the revenue*, and the expenditure classification, on the *purpose of the allocation*.

Furthermore, revenue and expenditure are grouped in accordance with the *departmental* or *branch principle*.

The revenues of the Union budget and of the republican budgets of the Union republics are subdivided into sections, subsections and subheads. The sections show the source of revenue (for example, Section I–Turnover tax; Section II–Deductions from profit). The subsections show in some cases the categories of taxpayers, and in others the nature of the payments. The subheads show the paying branch, i.e., a further characterisation of taxpayer is given. The classification of revenue in this way shows receipts according to sources of revenue and according to payers.

The classification of revenues in local budgets is based on the same principles.

The expenditure of the Union budget and of the budgets of the Union republics is subdivided into ten groups. For instance, Group I–National economy, Group II–Social and cultural services. Each group in turn is divided into sections, subsections, heads, and subheads. The subdivision of the sections is not the same in every group. In Group I the sections show expenditure by the ministries and government departments. In Group II the sections show the kinds of services (Section 200–Education; Section 203–Public Health).

The subsections are divided into subheads, which specify the assigned purpose of the expenditure. One group of subsections is for all institutions financed from the budget, another group is for enterprises on cost accounting.

In local budgets since 1959 the classification of expenditure has been approximately the same. The sections in the group National Economy divide expenditure on the departmental principle. These departmental sections are broken down into heads covering appropriations to different branches of the economy. The sections for expenditure on Education and Public Health have heads covering expenditure in respect of ministries of Autonomous republics, and administrations and departments of Executive Committees of local Soviets. Heads are divided into subsections covering expenditure according to types of institutions and services. Subsections have subheads showing the purpose of the expenditure.

Since the U.S.S.R. State Budget is based on the indices of the national economic plan and takes into account the branch of economy and regional (territorial) divisions of the plan, it is becoming necessary to adopt a composite classification of budget revenue and expenditure which will harmonise the budgeting of each territorial unit and its relations with the plans of branches of the economy and government departments.

The budget classification is of great organisational importance in the process of drafting, scrutinising, approving and implementing the U.S.S.R. State Budget. The bodies which draw up and implement the budget are responsible for correctly entering revenue and expenditure in the prescribed subdivisions of the budget classification.

The same subdivisions of the budget classification apply to the budget revenue and expenditure accounts showing the

implementation of the U.S.S.R. State Budget and the other budgets. A precise budget classification is therefore a necessary condition for correctly instituting accounting and control of the collection and disbursement of budgetary resources.

Drafting, Scrutinising and Approving the U.S.S.R. State Budget

The Soviet Government, on the basis of directives of the Communist Party, specifies the time limits, procedure and objectives for drafting the State Budget for the coming year. The Ministry of Finance of the U.S.S.R., on the basis of these directives and the annual targets of the national economic plan, issues instructions to the Union ministries and government departments of the U.S.S.R., on the preparation of draft income and expenditure balance sheets (financial plans) and estimates, and it also issues instructions to the Finance Ministries of Union republics as to the preparation of the draft state budgets of Union republics.

The Finance Ministries of the Union republics in turn issue instructions for drawing up estimates and draft income and expenditure balance sheets to the ministries and government departments of the republics; instructions are also issued by the Finance Ministries of the Union republics regarding the draft budgets of the Autonomous Soviet Socialist Republics and local Soviets to the Finance Ministries of Autonomous republics and regional and territorial financial departments, whilst the latter give similar instructions to all lower-ranking financial bodies.

The instructions in respect of the draft budgets lay down the procedure and time-limits for preparing the draft budgets and submitting them to the appropriate bodies. They also indicate what the budgets should cover, the main direction of expenditure, the norms for items of expenditure; they state any changes in forming the revenue side of the budget, and set out the method of assessing the expected amount of revenue from each source and the expected amount of expenditure on capital investment, working capital, wages and other expenses. These instructions in respect of the draft budgets are not confined to organisational matters; they also guide financial bodies to the attainment of specific objectives

in making the best use of fixed assets and working capital, discovering and employing any untapped resources in the economy which will raise labour productivity, and reduce production and distribution costs so as to augment the accumulation of funds by socialist enterprises and the revenue of the budget.

Preparation of the draft budgets starts simultaneously in all the links throughout the budgetary system of the U.S.S.R. On the basis of a government order for drawing up the national economic plan and State Budget, and data on the fulfilment of the budget, financial plans and their expected fulfilment as well as preliminary estimates on the fulfilment of targets set in the national economic plan, the Ministry of Finance of the U.S.S.R. draws up a preliminary balance sheet for the State Budget in broad categories well before the new financial year. The draft Union budget, showing revenue and expenditure, is based on the draft aggregate balances of income and expenditure submitted to the U.S.S.R. Ministry of Finance by the ministries and governmental departments of Union status, and from the data and estimates of the Finance Ministry itself covering taxes paid by individuals, etc. The draft budgets of the Union republics are drawn up similarly by their Finance Ministries. The drafting of local budgets has some special features which will be considered below.

In considering the U.S.S.R. State Budget, the Government now decides only the main categories of Union republican budget expenditure on the economy, on social and cultural services, and on maintenance of state administrative bodies. These allocations are distributed to particular purposes by the Union republics independently. This greatly reduces the number of documents and accounts required by the Union republics in relation to the budget.

The state budget is drawn up in the following stages:

(1) The expected fulfilment of the budget for the current year is analysed with the aim of discovering possibilities of increasing revenue and allocating resources more effectively in the forthcoming budget.

(2) Ministries and other government departments, and departments of Executive Committees of local Soviets work out aggregate financial plans and estimates and submit them

to the financial authorities; financial plans and estimates are also drawn up at each enterprise and organisation.

(3) The financial authorities concerned thoroughly check the validity and correctness of all the estimates and whether they conform with the directives of the Communist Party and Government and the targets set for the volume of production, trade turnover, production and distribution costs and capital investment, and for social and cultural institutions (number of institutions, number of persons attending them). The draft state budget of the republic is then drawn up from the aggregate revenue and expenditure estimates of the ministries, government departments of the republic and from the draft budgets of Autonomous republics and local Soviets.

(4) The draft state budget of each republic is scrutinised and accepted by the Council of Ministers of the Union republic. The agreed draft state budget of the republic is then submitted to the Council of Ministers of the U.S.S.R., with copies to Ministry of Finance of the U.S.S.R. and to the State Planning Committee of the U.S.S.R.

(5) The draft U.S.S.R. State Budget is drawn up from the draft Union budget, the drafts of the state budgets of the Union republics and from the draft state social insurance budget.

(6) The draft U.S.S.R. State Budget is considered and adopted by the Council of Ministers of the U.S.S.R., and it is then discussed by the Supreme Soviet and approved as a law. The U.S.S.R. State Budget law is the basis for making more precise the drafts of the state budgets of the Union republics.

(7) The amended drafts of the Union republican budgets are considered and adopted by the Supreme Soviets of the republics as laws; these laws are used to make more precise the draft budgets of Autonomous republics, territories and regions; the drafts are then discussed and approved at sessions of the Soviets.

(8) The work of preparing draft local budgets and combining them is done in the localities. Since these drafts are drawn up before the republican budget is passed, they are provisional. The work of making more detailed draft budgets begins later, after consideration of the financial plans and estimates submitted by enterprises and organisations.

The drafts of subordinate local budgets are finalised

only after the budgets at higher-ranking levels have been accepted and confirmed.

The principle of democratic centralism, on which the budgetary system of the U.S.S.R. and budgetary planning are based, requires two stages in drawing up draft state budgets of the Union republics, Autonomous republics and local Soviets; this allows the approximate size of the Union republic budget to be worked out centrally taking account of the estimates of localities. In the first stage the initial draft of the state budget of the Union republic is drawn up in broad categories without separating out the republican and local budgets. In the second stage the budget calculations are amended on the basis of the aggregate financial plans, estimates and other calculations prepared by ministries and government departments and by the departments of the Executive Committees of local Soviets; the size of each lower-ranking budget is then determined. Only after this is the more detailed draft of the state budget of a Union republic drawn up with the amounts apportioned between budgets of republics, A.S.S.R.s, territories, regions and towns coming under the republic.

When the draft U.S.S.R. State Budget has been prepared, it is submitted by the Ministry of Finance of the U.S.S.R. within the period laid down, to the Government for examination, with a copy to the State Planning Committee of the U.S.S.R. for its comments. The draft Union budget, the drafts of the state budgets of the Union republics and the estimates and draft revenue and expenditure balance sheets of Union ministries and government departments of the U.S.S.R. are appended, along with an explanatory memorandum on the draft budget and other documents.

After approval by the Council of Ministers of the U.S.S.R. the draft U.S.S.R. State Budget is put before the Supreme Soviet of the U.S.S.R. in the form, which conforms with Article 16 of the Law on the Budgetary Powers of the U.S.S.R. and Union Republics:

(1) U.S.S.R. State Budget–as the total revenue, showing the main sources of revenue separately, and the total expenditure showing separately appropriations for financing (a) the economy, (b) social and cultural measures, (c) national defence, and (d) upkeep of state government and administrative bodies, the courts and the Procurator's Office;

(2) the Union Budget–as the total revenue, showing separately the main sources of revenue, and the total expenditure showing separately the main types of expenditure, and the revenues from and appropriations to each ministry and government department of the U.S.S.R.;

(3) the state budgets of the Union republics and the state social insurance budget;

(4) proposals concerning the amount to be deducted from all-Union taxation and revenue for the state budgets of Union republics.

In the Supreme Soviet of the U.S.S.R., the draft U.S.S.R. State Budget is first scrutinised in the budget commissions of the Soviet of the Union and the Soviet of Nationalities, and also in the Economic Commission of the Soviet of Nationalities.

Scrutiny of the draft State Budget in the budget commissions is of considerable political significance. These commissions are set up in all Soviets (from the Supreme Soviet of the U.S.S.R. to the village Soviet). The budget commissions, by analysing the estimates and aggregate revenue and expenditure balance sheets annexed to the draft budget, exercise nation-wide control over the mobilisation, allocation and disbursement of state monies; they also show initiative in seeking new sources of revenue and in reducing expenditure; they assist in establishing correct interrelations between the budget and branches of the economy; and they criticise shortcomings in financial and economic activity. Their recommendations regarding the draft budget are brought before the two Chambers of the Supreme Soviet for scrutiny and approval. The widespread participation of deputies in the scrutiny of the draft budget testifies to the genuinely democratic nature of the budget and the budgetary process in the U.S.S.R.

After discussing the draft budget in detail, both Chambers of the Supreme Soviet of the U.S.S.R. approve it and the U.S.S.R. State Budget Law is adopted.

The U.S.S.R. State Budget Law for the coming year specifies:

(1) the total revenue and expenditure approved by the Supreme Soviet of the U.S.S.R. and the amount of the budget surplus;

(2) the total revenue from the socialist economy (turnover tax, transfers from profits, charges for the use of assets, etc.);

(3) the total expenditure on financing the economy, on social and cultural services, on national defence, and on upkeep of state government and administrative bodies;

(4) the size of the Union budget as regards revenue and expenditure and the budget surplus;

(5) the size of the state budgets of the Union republics as a whole and of the state budget of each republic;

(6) the deductions (as percentages) from all-Union state taxation and revenue to the state budgets of Union republics;

(7) the subsidies from the Union budget to the budgets of Union republics lacking sufficient means to cover the expenditure laid down.

The U.S.S.R. State Budget Law, and the discussion of the draft budget are published in the press for general information.

The draft state budgets of the Union republics are finalised by the Councils of Ministers of the Union republics on the basis of the U.S.S.R. State Budget Law, after which the Supreme Soviet of each Union republic approves the draft for its republic.

The draft local budgets are finalised in the light of the total revenue and expenditure of the budgets of the Autonomous republics, regions and territories, as approved by the Supreme Soviets of the Union republics. Then the draft budgets of the A.S.S.R.s, regions and territories are scrutinised and discussed in the Councils of Ministers of the Autonomous republics, in the regional and territorial Executive Committees, in the budget commissions and at sessions of the Soviets. Sessions of regional or territorial Soviets also take decisions approving the budgets. On the basis of the budgetary revenues and expenditure which have been fixed for districts and towns, these draft budgets are finalised. Every draft district budget is scrutinised in the financial and budget commission, and discussed and approved at a session of the district Soviet. The district budget states the total revenue and expenditure of all the budgets comprising it (district, town, settlement and village budgets). All the budgets coming under the district budget, including the village budgets, are finalised on the basis of the district budget.

Methods of Revenue Division Between Budgets

The division of the revenue between budgets serves several purposes. It balances the budgets and ensures that each budget is stable and self-contained; it offers an inducement to all state governmental and administrative bodies to ensure the fulfilment, on their territory, of the plans of all-Union state revenue and taxation; it ensures simplicity and flexibility in the interrelations between the component parts of the budgetary system and between budgets; it reduces and eliminates money shortages in the fulfilment of budgets; finally, it strengthens the ties between republican and local governmental and administrative bodies on the one hand and enterprises and branches of the economy on the other.

In practice there are several ways of dividing up the revenue–grants-in-aid of fixed amount; subventions; and, finally, percentage deductions from all-Union state revenue and taxation.

The *grants-in-aid system* of balancing the republican, Autonomous republican and local budgets was applicable in that period of recovery of the local economy when financial support to the localities was essential. The support could be rendered most simply and conveniently by outright grants from higher-ranking budgets, i.e., by transferring fixed lump sums to particular budgets for spending on a non-repayable basis. The system of grants reduced the initiative of the lower-ranking financial bodies in seeking local sources of revenue and it generated a dependent frame of mind.

In 1924, after the planning, regulating and controlling influence of the centre on the local economy had increased, the grants system was replaced by a system of subventions for balancing the budgets. *Subventions* are grants from the State Budget to local budgets to cover a percentage of local expenditure on particular, especially important items which are not only of local significance.

The system of subventions was abolished in 1931 and a new form of distributing revenue was introduced.

The *system of percentage deductions from all-Union state revenue and taxation,* which came into effect in 1931, is the most rational. This system provides a tangible inducement to state administrative bodies to fulfil and overfulfil state revenue and taxation plans on their territory.

The Supreme Soviet of the U.S.S.R. approves the percentage deductions from state revenue and taxation to the state budgets of the Union republics. At present the deductions may be the same for all republics in respect of some sources of revenue, but varied by republic as regards others. Varying percentages are applied to the turnover tax, which is the main and decisive source of revenue determining the revenue side of almost all types of budget.

Since 1958, in order to improve the financial position of republican and local budgets, all the proceeds of the agricultural tax, collective-farm income tax and forestry revenue have been transferred to the budgets of the Union republics.

The budgets of Union republics also receive deductions from the sums placed by the state savings banks in state loans out of the growth of the stable balances during the year being planned, and from the income obtained during the year from the 3% State Internal Lottery Loan. This increases the interest of the Union republics in the growth of deposits at savings banks in the republic and in increasing the sale of the bonds.

The Supreme Soviet of each Union republic approves percentage deductions from all-Union revenue and taxation which is transferred to the republics; these deductions are transferred to the budgets of the A.S.S.R.s, territories and regions to bring them into balance. The Supreme Soviets of the A.S.S.R.s, and the Soviets of the territories and regions approve the percentages transferred to the budgets of subordinate towns and districts and of Autonomous regions and areas. Finally, these deductions are in turn divided up among the budgets forming part of each district budget.

Using this revenue-distribution plan, branches and offices of the U.S.S.R. State Bank transfer the set proportion of all-Union income and taxation to the credit of each budget.

Implementation of the U.S.S.R. State Budget

Budget planning does not end with the drafting, scrutiny and approval of the budget. It pervades all the processes involved in implementing the budget.

In conformity with the U.S.S.R. Constitution and Article 22 of the Law on Budgetary Powers of the U.S.S.R. and

Union Republics, the implementation of the U.S.S.R. State Budget is controlled by the Council of Ministers of the U.S.S.R. through the Ministry of Finance of the U.S.S.R., the ministries and government departments of the U.S.S.R. and the Councils of Ministers of the Union republics. These bodies make sure that all revenue planned in the budget is received, that budgetary expenditure is made economically and in strict accordance with the stated purposes, and insofar as production and financial plans are fulfilled.

In addition to these executive bodies of government, enterprises and organisations, collective farms and individual citizens and a wide number of voluntary bodies, including trade unions, also participate in the implementation of the budget.

The practical implementation of the budget falls to the Ministry of Finance of the U.S.S.R. and its republican and local bodies. The village Soviets are responsible for the village budgets.

Implementation of the budget includes: mobilisation of the resources envisaged by the plan; financing of institutions and of cost-accounting organisations in accordance with planned allocations and insofar as production plans are fulfilled; a unified system for payments under the State Bank; and control over the collection of revenue and disbursement of expenditure.

In this connection, ministries and government departments, and departments of Executive Committees of local Soviets, are responsible for organising the implementation of the financial plans and estimates of all their subordinate enterprises, organisations and institutions, and for seeing that revenue is paid into the budget in the amounts stipulated in the financial plans. They act in a control capacity to check that budget monies are correctly used and they also examine and audit the work through the inter-departmental control offices. In carrying out these tasks these bodies take responsibility for the cash position and for financial discipline in budgetary matters.

After the approval of the budget the financial bodies compile the *revenue and expenditure schedule.* This schedule is a document setting out the sources of revenue and the nature of budgetary appropriations. It is the document on which are

based all revenue and expenditure transactions of the budget, records of incoming revenue, opening of credits and financing of institutions and planned measures.

The revenue and expenditure schedule is complied according to the subdivisions of the budget classification; annual figures are broken down into quarters, on the basis of the year's revenue and expenditure. This quarterly breakdown enables seasonal and other factors in collecting the revenue to be taken into account and quarterly expenditure can be adjusted to the fulfilment of national economic plans.

Powers to disburse the allocations approved in the budget are given to credit authorities. Depending on the extent of their powers, the credit authorities are subdivided into principal credit authorities and lower credit authorities; the latter in their turn are divided into two subordinate groups. The principal credit authorities disburse some of the resources placed at their disposal directly themselves, and the rest is distributed among the lower credit authorities subordinate to them. These lower credit authorities are the persons in charge of institutions and bodies for whom credits are opened to their order for transfer to departments and organisations administratively subordinate to them. Persons in charge of institutions and organisations who receive credits from their superior authorities only for disbursement are also designated credit authorities.

The principal credit authorities for the Union and republican budgets of Union and Autonomous republics are the ministers, and heads of other central government departments and institutions. Heads of departments of Executive Committees act in this capacity for local budgets, except at the level of the village, settlement and town subordinate to a district, where the principal credit authority is the chairman of the Executive Committee of a village, settlement or town Soviet.

Lower credit authorities of the first group are appointed only for Union and republican budgets. They are the heads of administrations and departments of ministries and central institutions of the U.S.S.R. and Union republics, which have their own balance sheets. There are no lower credit authorities of the first group for local budgets since there is no intermediate stage between the principal credit authority and the lower credit authorities of the second group; thus

the head of a district department of education is a principal authority, while the director of a school is a lower credit authority of the second group.

Powers regarding the distribution and employment of budgetary appropriations are laid down for the principal credit authorities and the lower authorities of the first group, who are responsible for the correct distribution of budgetary appropriations among lower spending authorities and for their proper expenditure.

The lower credit authority of the second group has the right to spend resources on approved estimates in strict accordance with the credits placed to their account (except in the case of local budgets). These authorities are obliged to abide by budgetary discipline, which provides that resources should be used economically and for the stated purposes, and that the disbursement of the appropriations for which they are responsible should be correctly and expeditiously recorded and reported.

The opening of a credit occurs when the financial bodies authorise the State Bank to advance budget monies to a credit authority. The credits are opened on the basis of the revenue and expenditure schedule by credit transfer orders which are instructions to branches of the State Bank to advance specific amounts for specific purposes.

All expenses from the local budgets on budget-financed institutions are met without opening credits, i.e., without credit transfer orders; transfers are made from the budget account to the current account of the institution concerned on the authority of the quarterly budget schedule; this does not apply to capital investment which is financed by credit transfer schedules.

Credit authorities are personally responsible for correct and prudent spending. It is their duty to ensure safe keeping of the money and its use for the purposes for which it was allocated. Principal credit authorities are required to control the institutions and organisations subordinate to them as regards the proper and full use of the funds.

In turn financial bodies control the actions of the credit authorities. The supervision is aimed at preventing and revealing unauthorised expenditure, illegal transfers of credits and other infringements of financial discipline.

Cash Handling of the U.S.S.R. State Budget

The cash side of the U.S.S.R. State Budget involves the receipt and custody of revenue and crediting it to the various types of budget accounts, recording the cash transactions of the budget, issuing cash from budget accounts, and a number of other transactions.

The fundamental principle in handling cash is *cash unity*. This principle means that the revenue of the budget is concentrated in an account at the State Bank from which resources are issued to cover expenditure. This makes possible bank control of the spending of state monies, rational organisation of the work of implementing the budget, and it also makes it possible to use idle budget balances for extending credit to the national economy.

By the *cash structure* is meant the organisational system of handling cash. In practice use is made of two systems, treasury cash and banking cash. In the banking system the cash management of the budget is based on strict separation of the organisations and persons who spend budget funds from the organisations which hold and issue the monies for spending. In the treasury system no such strict delimitation applies.

The banking system is superior to the treasury system. It provides more effective control of the use of monies and it enables all idle balances to be used for extending credit to the economy.

Most of the work in handling budget cash is done at branches of the U.S.S.R. State Bank; it is one of the most important functions of the State Bank.

Some cash transactions are carried out by offices of the Construction Bank of the U.S.S.R. and by savings banks, post offices, village Soviets and special cashiers' offices (at customs-houses, courts, etc.). But they are all under the control of the U.S.S.R. State Bank and the financial authorities; in this the principle of cash unity is manifest.

The U.S.S.R. State Bank is charged with the following responsibilities regarding the cash management of the budget:

(1) it receives the revenues of all the various budgets (payments from state, co-operative and social enterprises and organisations and from individuals). Twice monthly (on the 1st and 16th of the month), State Bank institutions distribute

revenues and taxes received between the Union budget and the budgets of the Union republics;

(2) it transfers the deductions from all-Union state revenue and taxation to the various budgets (on the basis of the planned percentages). Deductions into republican budgets of the Autonomous republics and into local budgets are made daily;

(3) it pays out and records expenditure from the budget. In particular, offices of the U.S.S.R. State Bank make payments from the Union budget and from the budgets of the Union republics to enterprises, organisations and institutions within the limits of the credits opened for them; from the budgets of Autonomous republics and local budgets, they pay out only up to the limit of the current account balances of the respective budgets. In addition to this, when payments are made, for example for wages, the offices of the U.S.S.R. State Bank check the transfer to budget revenue of taxes and social insurance contributions;

(4) budget credits are transferred between branches of the bank;

(5) accounts are kept of the cash transactions of the budget.

The offices of the State Bank keep the financial authorities fully informed and report to them on progress in implementation of the budget in cash terms. This enables the financial authorities to exercise control over the cash position, to keep an account of the implementation of the budget and to take practical steps to remedy any shortcomings.

The final stage is the preparation, scrutiny and approval of the annual financial report on the implementation of the budget. This is compiled by the Ministry of Finance of the U.S.S.R. using the reports from institutions of the U.S.S.R. State Bank, the credit authorities and the lower financial bodies, and it is then submitted to the Council of Ministers of the U.S.S.R. The State Control Commission of the Council of Ministers of the U.S.S.R. appraises the report. After acceptance by the Council of Ministers of the U.S.S.R. it is sent to the Supreme Soviet of the U.S.S.R. where it is examined in detail in budget commissions. It is then confirmed at a session of the Supreme Soviet of the U.S.S.R. The procedure is similar for preparing, scrutinising and approving the financial reports for all the other budgets.

Chapter 23

FINANCIAL CONTROL IN THE U.S.S.R.

Financial Control and Its Objectives

In a socialist society the strictest control over production, distribution and circulation of the social product and the rational utilisation of physical and monetary resources is an objective necessity and an obligatory condition of sound administration.

In a socialist society state control of the quantity and quality of labour, the measure of labour and the measure of consumption, is necessary because of the action under socialism of the economic law of planned balanced development of the national economy and the law of distribution according to quantity and quality of work done.

Lenin in his work *The State and Revolution* wrote: "Until the 'higher' stage of communism arrives, the socialists demand the *strictest* control by society *and by the state* over the measure of labour and the measure of consumption...."*

The planned development of a socialist economy presupposes that the resources of the country are efficiently used; this requires constant control by society over the production and distribution of the aggregate social product.

The Programme of the C.P.S.U. stresses that firm and consistent discipline, day-to-day control and determined elimination of elements of parochialism and of a narrow departmental approach in economic affairs are necessary conditions for successful communist construction.

Control by the state involves financial control as an integral element. In all branches of the economy, individual enterprises and institutions, financial control is carried out by the organs of state power, finance and credit institutions, ministries, their branch administrations and by other authorities.

Financial control, representing the content of the controlling function of Soviet finance, is exercised in the process of producing, distributing, redistributing and utilising the

* Lenin, *Collected Works*, Vol. 25, p. 470.

national income. It is thereby linked with another major function of socialist finance–distribution of the national income.

The gigantic programme of economic and cultural construction and the creation of the material and technical basis of communism require immense monetary resources for their realisation. Prudent, economical and efficient employment of these resources is one of the most important national tasks. It determines the main direction of financial control in the period of the full-scale construction of communism.

State financial control in the Soviet Union differs in principle from financial control in capitalist countries. Although the appearance of being an objective body is imparted to the control apparatus in capitalist countries, as if it were watching over the interests of all the people, in fact the people play no part in the exercise of control, whilst the control apparatus, as part of the bourgeois state administrative apparatus, protects the interests of the bourgeoisie. "In point of fact," wrote Lenin, "the whole question of control boils down to who controls whom, i.e., which class is in control and which is being controlled."*

In the Soviet Union where the state manages all the economic life of the country, financial control is exercised with the participation of the masses in the interests of the socialist community as a whole.

Main Types of Financial Control

Financial control over the work of enterprises, organisations and institutions is subdivided, as regards the time and way in which it is applied, into preliminary, current and post factum control.

Preliminary financial control precedes money transactions and transactions involving material values. It is carried out in the process of scrutinising draft financial plans of enterprises and organisations, and estimates of institutions, financial documents, orders for materials, etc.

The main task in preliminary control is to reveal as fully as possible existing resources, and to prevent illegal, uneconomical or inappropriate use of money or material values.

* Lenin, *Collected Works*, Vol. 25, p. 342.

Preliminary control is carried out by higher-ranking organisations, financial and credit bodies, and by the chief and senior accountants of the enterprises and institutions concerned.

Preliminary control by financial and credit bodies also includes the registration of wage funds and of estimates of administrative and management costs. This form of control prevents wasteful use of wage funds and of expenditure on administration and management.

Preliminary financial control is of great value since it prevents waste before it occurs.

Current financial control is usually applied in institutions, enterprises or organisations at the time when transactions are made, or expenditure is incurred; and it is applied by financial bodies during the implementation of the revenue and expenditure sides of the budget. Its purpose is to make sure that state and co-operative enterprises discharge their liabilities fully and on time as regards amounts due to the budget, and that the expenditure from the budget keeps pace with the fulfilment of operating and production plans and corresponds to the actual quotas established for the network of institutions financed from the budget (having regard to the utilisation of previous allocations).

The State Bank and Construction Bank offices exercise control over the allocations of credit and finance.

Post factum control is carried out after the transactions are completed, when the expenditure has been met, or when the income has been received; with its aid the economic justification of transactions and correct employment of state funds are verified, and untapped resources in enterprises and institutions are disclosed. It is effected by documentary audits, and by checking and analysing accounts and balances.

Post factum control also includes *actual auditing* on the spot in the course of which the correctness of expenditure and amount of cash in hand is checked along with stocktaking at depots, stores and elsewhere. During actual auditing on the spot raw and other materials in stock are weighed and measured and raw materials and supplies used in production are analysed and measured to ascertain the actual consumption per unit of product. Actual audits also make it possible to tell whether the cash in hand and stock values correspond to the bookkeeping records.

In post factum control *cross-checking* is also of great value. In this, for instance, the bookkeeping documents and materials on which returns were based at the organisations being audited are reconciled with the documents at the organisations from which money or materials have been received, or to which they have been sent.

On finding some infringement of financial discipline, or illegal expenditure of products or materials, the auditing bodies take measures to rectify them and make proposals for improving the work of the enterprise or institution, for obtaining restitution for the loss incurred by the state, and in necessary cases, for steps to be taken to prosecute the guilty party. At the same time the auditing bodies endeavour to prevent illegal acts being repeated in the future.

Audits may be *external* or *internal*, depending on who carries them out. External audits are carried out, for instance, by the State Control Commission of the Council of Ministers of the U.S.S.R., the State Control Commissions of the Councils of Ministers of the Union republics, or by the auditing machinery of the Ministry of Finance of the U.S.S.R., the Ministries of Finance of the Union republics and by institutions of the State Bank. Internal audits are carried out by departmental bodies.

Audits are classified as thematic, complex, total, or partial.

In *thematic audits* auditing is carried out simultaneously at many enterprises and institutions of the same kind, or else on certain special aspects of work (themes). For example, an audit may be carried out to check that teachers' salaries are being paid correctly and on time; or that the establishment list and grading of administrative personnel is in order; or the state of working capital or safe custody of stocks may be checked.

Thematic auditing permits a thorough study of particular problems. The findings can be generalised and analysed to improve conditions elsewhere in other institutions, enterprises and organisations as well as where the checks are made.

A *complex audit* is an all-round check on every aspect of the work of an enterprise or institution. Its purpose is to discover the overall financial and economic position of a particular body. Thus, for example, a complex audit of financial bodies would check on all aspects of financial work (state

revenue, finance of the economy and culture, the work of state insurance bodies or savings banks and so on).

A *total audit* covers all aspects of the activity of a particular organisation or enterprise. It gives a general picture of its financial and economic standing. *Partial audits* cover particular aspects of the work of a department or enterprise.

In complex, total and partial audits, all the documentation and stocks may be checked, or sample checks made over a certain period. A complete check is a better guarantee of finding out shortcomings than sampling.

Audits may be either *planned* or *extra-plan.* Extra-plan audits are mainly performed when serious shortcomings in work come to light; unsafe custody of stocks and cash, conversion or embezzlement.

Institutions of Financial Control

Financial control is exercised firstly by the supreme organs of Soviet government and state administration, and by local Soviets and their Executive Committees.

The supreme governmental bodies–the Supreme Soviet of the U.S.S.R. and Supreme Soviets of the Union republics–exercise financial control when they scrutinise the State Budget and the financial report as to its implementation. A check is made on the validity, correctness and usefulness of the budget proposals, and of revenue received and expenditure paid out. The same control functions are performed by local Soviets in relation to local budgets.

In the U.S.S.R. in recent years radical steps have been taken to improve Party, state and public control.

The Committee of People's Control enlists the widest support of Soviet, Party, trade union and Young Communist League organisations, as well as the broad masses of workers, collective farmers and office employees.

In the localities financial control is exercised by the chief and senior accountants of enterprises and institutions who share responsibility with the heads of institutions and enterprises for the observance of financial discipline in budget matters, it is also exercised by voluntary public controllers.

In the overall control system great importance attaches to the control of the allocation and employment of funds by the system of finance and credit.

The U.S.S.R. Ministry of Finance Statute, approved by the Government in 1950, is the legal authority for the control functions exercised by this ministry. A special inspectorate of the administrations and departments of the U.S.S.R. Ministry of Finance and of its local agencies verifies, in drawing up the budget, the correctness of the claims upon the budget in the financial plans of economic organisations and in the estimates of budget institutions, and also verifies that the planned revenue has been fully paid into the State Budget.

During the implementation of the budget financial bodies check that the measures provided for by the budget have been financed fully and on time; they verify that institutions, enterprises and organisations use their budgetary allocations efficiently for the purpose laid down. They check on budgeting, on strict adherence to the establishment list, and also on the legitimacy and purposefulness of the formation and use of special funds; they also check that bookkeeping and returns are properly organised.

There is a special control and audit agency for verification and auditing–the Control and Audit Administration of the U.S.S.R. Ministry of Finance and of the Union republics. Until 1956 these functions were carried out by the Central Control and Audit Administration of the Ministry of Finance of the U.S.S.R., which had a network of local bodies directly subordinate to it. The local bodies of the Control and Audit Administration of the Ministry of Finance of the U.S.S.R. have been transferred to the finance ministries of the Union republics. The aim of this transfer was to improve control of the observance of the budget power laws, of financial discipline and of correct and economical spending of budgetary resources and of the internal resources of enterprises and economic organisations; this transfer has further extended the powers of republican bodies supervising the implementation of the U.S.S.R. State Budget.

The control and audit administrations of the finance ministries of the Union republics supervise the work of local financial bodies, state insurance and state savings banks, budget institutions and economic organisations; they also supervise the drafting and implementation of republican and local budgets.

The main method of control under this system is documen-

tary audit. In Autonomous republics, territories, regions, and in the towns Moscow, Kiev, Leningrad, Alma Ata and Tashkent the control and audit work is directed by chief audit-controllers who are directly responsible to the Control and Audit Administrations of the Finance Ministries of the Union republics. In the capitals of Union republics, and in towns which are subdivided into districts, senior audit-controllers are appointed, who are directly responsible to a chief audit-controller. In some of the larger towns there are several posts of audit-controller.

This structure of the audit and control system gives it maximum independence in its work.

The main purpose behind auditing the budgetary work of financial bodies is to check the drafting and implementing of the budget. In particular, the purpose of the audit is to check all the preparatory work, that the estimates and financial plans are sound, that the revenue and expenditure is correctly divided between the budgets and that adjustments have been provided for in the plans. The audit also checks that the budgetary rights of the subordinate budgets are observed, and that control over the drafting and implementation of these budgets is efficacious.

The work reveals any cases of understatement of revenue by financial bodies, or any unwarranted excess appropriations from the budget.

The main questions which are given the attention of financial bodies in checking the productive, trading and financial activity of organisations and enterprises are the indices approved by the superior bodies. They include the volume of marketed output, basic nomenclature of output, wage fund, self-sufficiency and total profits, payments into and allocations by the budget. Checked are also the volume of centralised capital investments and the terms for the commissioning of production capacities and fixed assets; basic targets for the introduction of new technology and indices pertaining to material and technical supply.

The Programme of the C.P.S.U. has pointed to the need to make more efficient use of capital investment, manpower and materials and to minimise the outlay of social labour per unit of output.

In achieving these objectives a great part is being played by the institutions of the Construction Bank which are

required to verify the correct and efficient use of material and monetary resources in the building industry, and the observance of discipline in connection with projects and estimates. They check that building sites and construction organisations fulfil the targets for the reduction of construction costs, that the plan for mobilising internal resources is fulfilled, that wages funds are correctly utilised, that standards for material outlays and expenditure on overheads are kept to, that bank loans are repaid on time, and that measures are taken to eliminate stocks of materials and equipment in excess of standard limits.

The offices of the Construction Bank watch that material and monetary resources are not dissipated on numerous jobs and sites, or frozen in unifinished constructions. They guard against the inefficient use of capital investments, which delays completion dates, and concentrate the resources on the most important projects which are near completion so as to obtain capacity more quickly and increase industrial production.

The branches and offices of the Construction Bank are required to bring to light infringements of financial and estimating discipline, to call attention to bad organisation in materials handling and shortcomings in warehousing, transporting and protecting materials on the site.

The employment of resources allocated to capital construction on state farms and at other state agricultural organisations is controlled by institutions of the State Bank of the U.S.S.R. It is part of their function to discover and mobilise the internal financial resources of the farms and the other organisations.

Departmental financial control, organised at ministries and government departments of Union and republican status, is another component part of the overall system of financial control. At the discretion of a minister, or a head of any central institution, documentary audits are conducted at enterprises and economic organisations subordinate to them. Departmental financial control has the following tasks: to check the legitimacy of the transactions of the audited institution, enterprise, economic organisation or building site during the audited period, and to verify that financial and estimating discipline is observed; to combat squandering of socialist property, and to discover any unlawful use of mone-

tary or material resources; to check that the system of accounting and returns and the stock control system are properly organised and correctly managed.

In improving the work of the state administrative machinery, a great part is played by public control; on this depends to a large extent the correct utilisation of all the country's resources, and the rapid and correct solution of the problems of providing cultural facilities and social amenities for the people. The Twenty-Second Congress of the C.P.S.U. paid special attention to the extension of public control as one of the ways of systematically applying Lenin's policy that there must be a comprehensive development of democratic principles in managing the economy, combined with centralised state administration. In the Programme of the C.P.S.U. it is stressed that in accordance with Lenin's proposals permanent control bodies must combine state control with public inspection at the centre and in the localities. Inspection, by people's control bodies, is an effective means for drawing large sections of the people into the management of state affairs and control over the strict observance of legality, a means of perfecting the government apparatus, eradicating bureaucracy and promptly realising proposals made by the people.

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